

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-34374

**ARLINGTON ASSET INVESTMENT CORP.**

(Exact name of registrant as specified in its charter)

Virginia  
(State or Other Jurisdiction of  
Incorporation or Organization)

54-1873198  
(I.R.S. Employer  
Identification No.)

6862 Elm Street, Suite 320  
McLean, VA 22101  
(Address of Principal Executive Offices) (Zip Code)

(703) 373-0200  
(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Class A Common Stock	AI	NYSE
7.00% Series B Cumulative Perpetual Redeemable Preferred Stock	AI PrB	NYSE
8.250% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock	AI PrC	NYSE
6.625% Senior Notes due 2023	AIW	NYSE
6.75% Senior Notes due 2025	AIC	NYSE

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act: Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files): Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Small reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes  No

The aggregate market value of the registrant's Class A common stock held by non-affiliates computed by reference to the last reported price at which the registrant's Class A common stock was sold on the New York Stock Exchange on June 30, 2019 was \$247 million.

As of January 31, 2020, there were 36,815,761 shares of the registrant's Class A common stock outstanding and no shares of the registrant's Class B common stock outstanding.

**Documents incorporated by reference:** Portions of the registrant's Definitive Proxy Statement for the 2020 Annual Meeting of Shareholders (to be filed with the Securities and Exchange Commission no later than 120 days after the end of the registrant's fiscal year end) are incorporated by reference in this Annual Report on Form 10-K in response to Part II, Item 5 and Part III, Items 10, 11, 12, 13 and 14.

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## CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING INFORMATION

When used in this Annual Report on Form 10-K, in future filings with the Securities and Exchange Commission (“SEC”) or in press releases or other written or oral communications, statements which are not historical in nature, including those containing words such as “believe,” “expect,” “anticipate,” “estimate,” “plan,” “continue,” “intend,” “should,” “may” or similar expressions, are intended to identify “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and, as such, may involve known and unknown risks, uncertainties and assumptions. The forward-looking statements we make in this Annual Report on Form 10-K include, but are not limited to, statements about the following:

- the availability and terms of, and our ability to deploy, capital and our ability to grow our business through our current strategy focused on acquiring either (i) residential mortgage-backed securities (“MBS”) that are either issued by U.S. government agencies or guaranteed as to principal and interest by U.S. government agencies or U.S. government sponsored agencies (“agency MBS”) or (ii) mortgage credit investments that generally consist of mortgage loans secured by either residential or commercial real property or MBS collateralized by such mortgage loans;
- our ability to qualify and maintain our qualification as a real estate investment trust (“REIT”);
- our ability to forecast our tax attributes, which are based upon various facts and assumptions, and our ability to protect and use our net operating losses (“NOLs”) and net capital losses (“NCLs”) to offset future taxable income, including whether our shareholder rights plan, as amended (“Rights Plan”) will be effective in preventing an ownership change that would significantly limit our ability to utilize such losses;
- our business, acquisition, leverage, asset allocation, operational, investment, hedging and financing strategies and the success of, or changes in, these strategies;
- credit risks underlying our assets, including changes in the default rates and management’s assumptions regarding default rates on the mortgage loans securing our non-agency MBS;
- the effect of changes in prepayment rates, interest rates and default rates on our portfolio;
- the effect of governmental regulation and actions on our business, including, without limitation, changes to monetary and fiscal policy and tax laws;
- our ability to quantify and manage risk;
- our ability to roll our repurchase agreements on favorable terms, if at all;
- our liquidity;
- our asset valuation policies;
- our decisions with respect to, and ability to make, future dividends;
- investing in assets other than mortgage investments or pursuing business activities other than investing in mortgage investments;
- our ability to successfully operate our business as a REIT;
- our ability to maintain our exclusion from the definition of “investment company” under the Investment Company Act of 1940, as amended (the “1940 Act”); and
- the effect of general economic conditions on our business.

Forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account information currently in our possession. These beliefs, assumptions and expectations may change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, the performance of our portfolio and our business, financial condition, liquidity and results of operations may vary materially from those expressed, anticipated or contemplated in our forward-looking statements. You should carefully consider these risks, along with the following factors that could cause actual results to vary from our forward-looking statements, before making an investment in our securities:

- the overall environment for interest rates, changes in interest rates, interest rate spreads, the yield curve and prepayment rates, including the timing of changes in the Federal Funds rate by the U.S. Federal Reserve;
- the effect of any changes to the London Interbank Offered Rate (“LIBOR”) and establishment of alternative reference rates;
- current conditions and further adverse developments in the residential mortgage market and the overall economy;

- potential risk attributable to our mortgage-related portfolios, including changes in fair value;
- our use of leverage and our dependence on repurchase agreements and other short-term borrowings to finance our mortgage-related holdings;
- the availability of certain short-term liquidity sources;
- competition for investment opportunities;
- U.S. Federal Reserve monetary policy;
- the federal conservatorship of the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corporation (“Freddie Mac”) and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the federal government;
- mortgage loan prepayment activity, modification programs and future legislative action;
- changes in, and success of, our acquisition, hedging and leverage strategies, changes in our asset allocation and changes in our operational policies, all of which may be changed by us without shareholder approval;
- failure of sovereign or municipal entities to meet their debt obligations or a downgrade in the credit rating of such debt obligations;
- fluctuations of the value of our hedge instruments;
- fluctuating quarterly operating results;
- changes in laws and regulations and industry practices that may adversely affect our business;
- volatility of the securities markets and activity in the secondary securities markets in the United States and elsewhere;
- our ability to qualify and maintain our qualification as a REIT for federal income tax purposes;
- our ability to successfully expand our business into areas other than investing in MBS and our expectations of the returns of expanding into any such areas; and
- the other important factors identified in this Annual Report on Form 10-K under the caption “Item 1A - Risk Factors.”

These and other risks, uncertainties and factors, including those described elsewhere in this Annual Report on Form 10-K, could cause our actual results to differ materially from those projected in any forward-looking statements we make. All forward-looking statements speak only as of the date on which they are made. New risks and uncertainties arise over time and it is not possible to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## ITEM 1. BUSINESS

Unless the context otherwise requires or indicates, all references in this Annual Report on Form 10-K to “Arlington Asset” refer to Arlington Asset Investment Corp., and all references to “we,” “us,” “our,” and the “Company,” refer to Arlington Asset Investment Corp. and its consolidated subsidiaries.

### Our Company

We are an investment firm that focuses on acquiring and holding a levered portfolio of mortgage investments. Our mortgage investments generally consist of (i) agency mortgage-backed securities (“MBS”) and (ii) mortgage credit investments.

Our agency MBS consist of residential mortgage pass-through certificates for which the principal and interest payments are guaranteed by either a U.S. government sponsored enterprise (“GSE”), such as the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corporation (“Freddie Mac”), or by a U.S. government agency, such as the Government National Mortgage Association (“Ginnie Mae”).

Our mortgage credit investments may include investments in mortgage loans secured by either residential or commercial real property or MBS collateralized by such mortgage loans, which we refer to as non-agency MBS. The principal and interest of our mortgage credit investments are not guaranteed by a GSE or a U.S. government agency.

We believe we leverage prudently our investment portfolio, as we seek to increase potential returns to our shareholders. We fund our investments primarily through short-term financing arrangements, principally through repurchase agreements. We enter into various hedging transactions to mitigate the interest rate sensitivity of our cost of borrowing and the value of our fixed-rate mortgage investment portfolio.

We intend to elect to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”) upon filing our tax return for our taxable year ended December 31, 2019. As a REIT, we are required to distribute annually 90% of our REIT taxable income (subject to certain adjustments). So long as we continue to qualify as a REIT, we will generally not be subject to U.S. federal or state corporate income taxes on our taxable income that we distribute to our shareholders on a timely basis. At present, it is our intention to distribute 100% of our taxable income, although we will not be required to do so. We intend to make distributions of our taxable income within the time limits prescribed by the Internal Revenue Code, which may extend into the subsequent taxable year. For our tax years ended December 31, 2018 and earlier, we were taxed as a C corporation for U.S. federal tax purposes.

We are a Virginia corporation. We are internally managed and we do not have an external investment advisor.

### Investment Strategy

We manage our investment portfolio with the goal of obtaining a high risk-adjusted return on capital. We evaluate the rates of return that can be achieved in each asset class and for each individual security within an asset class in which we invest. We then evaluate opportunities against the returns available in each of our investment alternatives and attempt to allocate our assets and capital with an emphasis toward what we believe to be the highest risk-adjusted return available. We expect this strategy will cause us to have different allocations of capital and leverage in different market environments.

As of December 31, 2019, our investment capital has been allocated to our agency MBS and mortgage credit investment strategies. Within our mortgage credit investment strategy, our current investments consist of both commercial mortgage loans and non-agency MBS collateralized by commercial mortgage loans. In the future, we may invest in other types of mortgage credit investments assets such as residential mortgage loans, non-agency MBS collateralized by residential mortgage loans, credit risk transfer securities, and other real estate-related loans and securities. In addition, we also may pursue other business activities that would utilize our experience in analyzing investment opportunities and applying similar portfolio management skills. However, investing in other asset classes or pursuing other business activities may be limited by our desire to continue to qualify as a REIT. We may change our investment strategy at any time without the consent of our shareholders; accordingly, in the future, we could make investments or enter into hedging transactions that are different from, and possibly riskier than, the investments and associated hedging transactions described in this Annual Report on Form 10-K.

We allocate our capital between our investment strategies in order to seek what we believe would be the highest risk-adjusted returns. Our investment capital is comprised of both our shareholders' equity capital and long-term unsecured debt capital. The following table summarizes our capital allocation between our agency MBS and mortgage credit investment strategies as of December 31, 2019 and 2018, respectively (dollars in thousands):

	December 31, 2019		December 31, 2018	
	Capital Allocation (\$)	Capital Allocation (%)	Capital Allocation (\$)	Capital Allocation (%)
Mortgage investments:				
Agency MBS	\$ 344,173	86%	\$ 348,524	100%
Mortgage credit investments	57,403	14%	24	—
Total	<u>\$ 401,576</u>	100%	<u>\$ 348,548</u>	100%

### Mortgage Investment Portfolio

The following table summarizes our mortgage investment portfolio at fair value as of December 31, 2019 and 2018 (dollars in thousands):

	December 31, 2019	December 31, 2018
Agency MBS:		
Specified agency MBS	\$ 3,768,496	\$ 3,982,106
Net long agency TBA dollar roll positions (1)	—	—
Total agency MBS	<u>3,768,496</u>	<u>3,982,106</u>
Mortgage credit investments:		
Non-agency MBS	33,501	24
Mortgage loans	45,000	—
Total mortgage credit investments	<u>78,501</u>	<u>24</u>
Total mortgage investments	<u>\$ 3,846,997</u>	<u>\$ 3,982,130</u>

- (1) Represents the fair value of the agency MBS which underlie our TBA forward purchase and sale commitments executed as dollar roll transactions. In accordance with generally accepted accounting principles, our TBA forward purchase and sale commitments are reflected on the consolidated balance sheets as a component of "derivative assets, at fair value" and "derivative liabilities, at fair value," with a collective net asset carrying value of \$438 as of December 31, 2018.

### Agency MBS

Agency MBS consist of residential pass-through certificates that are securities representing undivided interests in "pools" of mortgage loans secured by residential real property. The monthly payments of both principal and interest of the securities are guaranteed by a U.S. government agency or GSE to holders of the securities, in effect "passing through" the monthly payments made by the individual borrowers on the mortgage loans that underlie the securities plus "guarantee payments" made in the event of any defaults on such mortgage loans, net of fees paid to the issuer/guarantor and servicers of the underlying mortgage loans, to the holders of the securities. Mortgage pass-through certificates distribute cash flows from the underlying collateral on a pro rata basis among the holders of the securities. Although the principal and interest payments are guaranteed by a U.S. government agency or GSE to the security holder, the market value of the agency MBS is not guaranteed by a U.S. government agency or GSE.

The agency MBS that we primarily invest in are issued by Fannie Mae and Freddie Mac. Fannie Mae and Freddie Mac are stockholder-owned corporations chartered by Congress with a public mission to provide liquidity, stability, and affordability to the U.S. housing market. Fannie Mae and Freddie Mac are currently regulated by the Federal Housing Finance Agency ("FHFA"), the U.S. Department of Housing and Urban Development ("HUD"), the U.S. Securities and Exchange Commission ("SEC"), and the U.S. Department of the Treasury ("U.S. Treasury"), and are currently operating under the conservatorship of the FHFA. The U.S. Treasury has agreed to support the continuing operations of Fannie Mae and Freddie Mac with any necessary capital contributions while in conservatorship. However, the U.S. government does not guarantee the securities, or other obligations, of Fannie Mae or Freddie Mac.

We also invest in agency MBS issued by Ginnie Mae. Ginnie Mae is a wholly-owned corporate instrumentality of the United States within HUD. Ginnie Mae guarantees the timely payment of the principal and interest on certificates that represent an interest in a pool of mortgages insured by the Federal Housing Administration ("FHA"), or partially guaranteed by the Department of Veterans Affairs and other loans eligible for inclusion in mortgage pools underlying Ginnie Mae certificates. Section 306(g) of the Housing Act

provides that the full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty by Ginnie Mae.

Fannie Mae, Freddie Mac and Ginnie Mae operate in the secondary mortgage market. They provide funds to the mortgage market by purchasing residential mortgages from primary mortgage market institutions, such as commercial banks, savings and loan associations, mortgage banking companies, seller/servicers, securities dealers and other investors. Through the mortgage securitization process, they package mortgage loans into guaranteed MBS for sale to investors, such as us, in the form of pass-through certificates and guarantee the payment of principal and interest on the securities or on the underlying loans held within the securitization trust in exchange for guarantee fees. The underlying loans of Fannie Mae and Freddie Mac agency MBS must meet certain underwriting standards established by Fannie Mae and Freddie Mac (referred to as “conforming loans”) and may be fixed or adjustable rate loans with original terms to maturity generally up to 40 years.

Agency MBS differ from other forms of traditional fixed-income securities which normally provide for periodic payments of interest in fixed amounts with principal payments at maturity. Instead, agency MBS provide for a monthly payment that consists of both interest and principal. In addition, outstanding principal on the agency MBS may be prepaid, without penalty, at par at any time due to prepayments on the underlying mortgage loans. These differences can result in significantly greater price and yield volatility than is the case with more traditional fixed-income securities.

As of December 31, 2019, the Company’s agency MBS portfolio was generally comprised of securities collateralized by pools of fixed-rate mortgages that have original terms to maturity of 30 years. In the future, we may also invest in agency MBS collateralized by adjustable-rate mortgage loans (“ARMs”), hybrid ARMs, or loans with original terms to maturity of 15 or 20 years.

We may also invest in agency MBS through agency collateralized mortgage obligations (“CMO”), which are structured securities representing divided interests in the cash flows of underlying agency residential pass-through certificates. Agency CMOs consist of multiple classes of securities, called tranches, which have different maturities, coupon rates, and payment priorities designed to meet the risk and yield appetites of various classes of investors. CMOs also include “stripped” securities, whereby certain tranche holders receive only interest payments from the underlying securities while other tranche holders receive only principal payments.

We purchase agency MBS either in initial offerings or in the secondary market through broker-dealers or similar entities. We may also utilize to-be-announced (“TBA”) forward contracts in order to invest in agency MBS or to hedge our investments. A TBA security is a forward contract for the purchase or the sale of agency securities at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date, but the particular agency securities to be delivered are not identified until shortly before the TBA settlement date. We may also choose, prior to settlement, to move the settlement of these securities out to a later date by entering into an offsetting position (referred to as a “pair off”), net settling the paired off positions for cash, and simultaneously entering into a similar TBA contract for a later settlement date, which is commonly collectively referred to as a “dollar roll” transaction.

### ***Mortgage Credit Investments***

Our mortgage credit investments may include investments in either mortgage loans secured by either residential or commercial real property or MBS collateralized by such mortgage loans, which we refer to as non-agency MBS. The principal and interest of such mortgage credit investments are not guaranteed by a GSE or a U.S government agency. Accordingly, mortgage credit investments carry a significantly higher level of credit exposure relative to the credit exposure of agency MBS. The mortgage credit investments in which we may invest are generally non-investment grade or not rated by major rating agencies. Our mortgage credit investments may include residential mortgage loans, commercial mortgage loans, MBS collateralized by either residential or commercial mortgage loans and credit-risk transfer securities.

Residential mortgage loans are secured by one to four family residential properties and are generally classified as being either a qualified or non-qualified mortgage. A qualified mortgage is a mortgage that meets certain requirements for lender protection and secondary trading under the Dodd-Frank Wall Street Reform and Consumer Protection Act (“the Dodd-Frank Act”). In general, a qualified mortgage (i) contains less risky loan features, such as interest-only periods, negative amortization or balloon payments, (ii) has debt-to-income ratio limits, (iii) has limits on origination points and fees, and (iv) has certain legal protections for lenders. Qualified mortgages may or may not meet the underwriting standards of a U.S. government agency or GSE. In general, non-qualified mortgage loans carry a higher credit risk than qualified mortgage loans.

Residential mortgage loans may also consist of either performing or distressed loans. Performing residential mortgage loans are loans that are generally current that consist of GSE eligible mortgage loans, non-qualified mortgage loans, or loans originally underwritten to GSE or another program’s guidelines but are either undeliverable to a GSE or ineligible for a program due to certain underwriting or compliance errors. Distressed residential mortgage loans may include seasoned re-performing, non-performing and other delinquent mortgage loans that would generally be purchased at a discount to the principal amount outstanding.

We may also invest in mortgage loans secured by residential real property for which the borrower holds the property for investment purposes, which we consider residential business purpose loans. Residential business purpose loans are used by the borrower to fund the acquisition, renovation, rehabilitation, development and/or improvement of a residential property for investment or sale. Residential business purpose loans are also used to fund single-family rental properties.

Commercial mortgage loans are secured by commercial real property such as office, retail, multifamily, industrial, hospitality or healthcare facilities. The commercial mortgage loans that we invest in typically have a first lien in the underlying real property; however, we may also invest in loans that have a second lien or that are considered mezzanine loans. The loans generally require the payment of interest monthly at a fixed-rate or floating rate based a benchmark such as LIBOR or prime plus a spread and generally mature between three and ten years and may require periodic principal amortization with a balloon principal payment at maturity. Commercial mortgage loans typically have various covenants including financial covenants based on the performance of the property securing the loan.

Our mortgage credit investments also include investments in securitization trusts not issued or guaranteed by a U.S. government agency or GSE that are collateralized by a pool of either residential or commercial mortgage loans, which we refer to as non-agency MBS. In some instances, non-agency commercial MBS may be backed by a single mortgage loan secured by one or more commercial real properties. In addition, non-agency MBS also may include a re-securitization of MBS.

Non-agency MBS are generally issued by a securitization trust referred to as either a Real Estate Mortgage Investment Conduit (“REMIC”) or a grantor trust. The securitization trust will generally issue both senior and subordinated interests. Senior securities are those interests in a securitization that have the first right to cash flows and are last in line to absorb losses, and, therefore, have the least amount of credit risk in a securitization transaction. In general, most, if not all, principal collected from the underlying mortgage loan pool is used to pay down the senior securities until certain performance tests are satisfied. If certain performance tests are satisfied, principal payments are allocated, generally on a pro rata basis, between the senior securities and the subordinated securities. Conversely, the most subordinate securities are those interests in a securitization that have the last right to cash flows and are first in line to absorb losses. Subordinate securities absorb the initial credit losses from a securitization structure, thus protecting the senior securities. Subordinate securities generally receive interest payments even if they do not receive principal payments.

Non-agency MBS may be supported by one or more forms of private (i.e., non-governmental) credit enhancement. These credit enhancements provide an extra layer of loss coverage in the event that losses are incurred upon foreclosure sales or other liquidations of underlying mortgaged properties in amounts that exceed the equity holder’s equity interest in the property. Forms of credit enhancement include limited issuer guarantees, reserve funds, private mortgage guaranty pool insurance, overcollateralization and subordination. Subordination is a form of credit enhancement frequently used and involves the issuance of classes of MBS that are subordinate to senior class MBS and, accordingly, are the first to absorb credit losses realized on the underlying mortgage loans. In addition, non-agency MBS are generally purchased at a discount to par value, which may provide further protection to credit losses of the underlying mortgage loan collateral.

## **Financing Strategy**

We use leverage to finance a portion of our mortgage investment portfolio and to seek to increase potential returns to our shareholders. To the extent that revenue derived from our mortgage investment portfolio exceeds our interest expense and other costs of the financing, our net income will be greater than if we had not borrowed funds and had not invested in the assets. Conversely, if the revenue from our mortgage investment portfolio does not sufficiently cover the interest expense and other costs of the financing, our net income will be less or our net loss will be greater than if we had not borrowed funds.

Because of the interest rate risk inherent to our agency MBS investment strategy and credit risk inherent to our mortgage credit investment strategy, we closely monitor the leverage (debt-to-equity ratio) of our mortgage investment portfolio. Our leverage may vary from time to time depending upon several factors, including changes in the value of the underlying mortgage investment and hedge portfolio, changes in investment allocation between agency MBS and mortgage credit investments, the timing and amount of investment purchases or sales, and our assessment of risk and returns.

We finance our investments using short-term secured borrowings, which primarily consist of repurchase agreements. We have also issued, and may issue in the future, long-term unsecured notes as an additional source of financing.

When we engage in a repurchase transaction, we initially sell securities to the counterparty under a master repurchase agreement in exchange for cash from the counterparty. The counterparty is obligated to resell the same securities back to us at the end of the term of the repurchase agreement, which typically is 30 to 60 days, but may have maturities as short as one day or as long as one year. Amounts available to be borrowed under our repurchase agreements are dependent upon lender collateral requirements and the lender’s determination of the fair value of the securities pledged as collateral, which fluctuates with changes in interest rates, credit quality and liquidity conditions within the investment banking, mortgage finance and real estate industries. In addition, our counterparties apply a “haircut” to our pledged collateral, which means our collateral is valued, for the purposes of the repurchase



transaction, at less than market value. Under our repurchase agreements, we typically pay a floating rate generally based on benchmark interest rates such as LIBOR, plus or minus a fixed spread. These transactions are accounted for as secured financings, and we present the investment securities and related funding on our consolidated balance sheets.

We may also seek to obtain other sources of financing depending on market conditions. We may finance the acquisition of agency MBS by entering into TBA dollar roll transactions in which we would sell a TBA contract for current month settlement and simultaneously purchase from the same counterparty a similar TBA contract for a forward settlement date. Prior to the forward settlement date, we may choose to roll the position out to a later date by entering into an offsetting TBA position, net settling the paired off positions for cash, and simultaneously entering into a similar TBA contract for a later settlement date. In such transactions, the TBA contract purchased for a forward settlement date is priced at a discount to the TBA contract sold for settlement/pair-off in the current month. This difference (or discount) is referred to as the “price drop.” As discussed in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations— “Non-GAAP Core Operating Income,” we believe this price drop is the economic equivalent of net interest carry income (interest income less implied financing cost) earned from the underlying agency MBS over the roll period, which is commonly referred to as “dollar roll income.” Consequently, dollar roll transactions represent a form of off-balance sheet financing. In evaluating our overall leverage at risk, we consider both our on-balance and off-balance sheet financing.

## **Risk Management Strategy**

In conducting our business, we are exposed to market risks, including interest rate, prepayment, extension, spread, credit, liquidity and regulatory risks. We use a variety of strategies to manage a portion of our exposure to these risks to the extent we believe to be prudent, taking into account our investment strategy and the cost of any hedging transactions. As a result, we may not hedge certain interest rate, prepayment, extension, or credit risks if we believe that bearing such risks enhances our return relative to our risk/return profile. Our interest rate hedging instruments are generally not designed to protect our net book value from “spread risk” (also referred to as “basis risk”), which is the risk of an increase of the spread between the market yield on our mortgage investments and the benchmark yield on U.S. Treasury securities or interest rate swaps.

- **Interest Rate Risk**

We hedge some of our exposure to potential interest rate mismatches between the interest we earn on our long-term investments and the interest we pay on our short-term borrowings. We enter into various hedging transactions to mitigate the interest rate sensitivity of our cost of borrowing and the value of our fixed-rate agency MBS or other fixed-rate mortgage investments. Because a majority of our funding is in the form of repurchase agreements, our financing costs fluctuate based on short-term interest rate indices, such as LIBOR. Because our agency MBS are assets that have fixed rates of interest and generally mature in up to 30 years, the interest we earn on these assets generally does not move in tandem with the interest rates that we pay on our repurchase agreements, which generally have a maturity of less than 60 days. In addition, as interest rates rise, the fair value of our fixed-rate agency MBS may be expected to decline. We may experience reduced income, losses, or a significant reduction in our book value due to adverse interest rate movements. In order to attempt to mitigate a portion of such risk, we utilize certain hedging techniques to attempt to economically “lock in” a portion of the net spread between the interest we earn on our assets and the interest we pay on our financing costs and to protect our net book value.

Additionally, because prepayments on residential mortgages generally accelerate when interest rates decrease and slow when interest rates increase, mortgage securities typically exhibit “negative convexity.” In other words, certain mortgage securities in which we invest may increase in value to a lesser degree than similar duration bonds, or even fall in value, as interest rates decline. Conversely, certain mortgage securities in which we invest may decrease in value to a greater degree than similar duration bonds as interest rates increase. In order to manage this risk, we monitor, among other things, the “duration gap” between our mortgage assets and our hedge portfolio as well as our convexity exposure. Duration is an estimate of the relative expected percentage change in market value of our mortgage assets or our hedge portfolio that would be caused by a parallel change in short and long-term interest rates. Convexity exposure relates to the way the duration of our mortgage assets or our hedge portfolio changes when the interest rate or prepayment environment changes.

The value of our mortgage assets may also be adversely impacted by fluctuations in the shape of the yield curve or by changes in the market's expectation about the volatility of future interest rates. We analyze our exposure to non-parallel changes in interest rates and to changes in the market's expectation of future interest rate volatility and take actions to attempt to mitigate these exposures.

- **Prepayment Risk**

Because residential borrowers have the option to prepay their mortgage loans at par at any time, we face the risk that we will experience a return of principal on our investments more quickly than anticipated, which we refer to as prepayment risk.

Prepayment risk generally increases when interest rates decline. In this scenario, our financial results may be adversely affected as we may have to re-invest that principal at potentially lower yields.

We may purchase securities that have a higher interest rate than the then-prevailing market interest rate. In exchange for this higher interest rate, we may pay a premium to par value to acquire such securities. In accordance with generally accepted accounting principles as consistently applied in the United States (“GAAP”), we amortize this premium as a reduction to interest income using the contractual effective interest method such that a proportional amount of the unamortized premium is amortized as principal prepayments occur. If a security is prepaid in whole or in part at a faster rate than originally expected, we will amortize the purchase premium at a faster pace, resulting in a lower effective return on our investment than originally expected.

We may also purchase securities that have a lower interest rate than the then-prevailing market interest rate. In exchange for this lower interest rate, we may pay a discount to par value to acquire such securities. In accordance with GAAP, we accrete this discount as an increase to interest income using the contractual effective interest method such that a proportional amount of the unamortized discount is accreted as principal prepayments occur. If a security is prepaid in whole or in part at a slower rate than originally expected, we will accrete the purchased discount at a slower pace resulting in a lower effective return on our investment than originally expected.

- **Extension Risk**

Because residential borrowers have the option to make only scheduled payments on their mortgage loans, rather than prepay their mortgage loans, we face the risk that a return of capital on our investment will occur more slowly than anticipated, which we refer to as extension risk. Extension risk generally increases when interest rates rise. In this scenario, our financial results may be adversely affected as we may have to finance our investments at potentially higher costs without the ability to reinvest principal into higher yielding securities.

- **Spread Risk**

Because the spread between the market yield on our investments and benchmark interest rates, such as U.S. Treasury rates and interest rate swap rates, may vary, we are exposed to spread risk. The inherent spread risk associated with our mortgage investments and the resulting fluctuations in fair value of these securities can occur independent of interest rates and may relate to other factors impacting the mortgage and fixed income markets, such as actual or anticipated monetary policy actions by the U.S. Federal Reserve, liquidity, or changes in market participants’ required rates of return on different assets. Consequently, while we use interest rate derivative instruments to attempt to protect our net book value against changes in benchmark interest rates, such instruments typically will not mitigate spread risk and, therefore, the value of our mortgage investments and our net book value could decline. We generally do not hedge the spread risk inherent in our mortgage investments.

- **Credit Risk**

Investments in residential and commercial mortgage loans and non-agency MBS collateralized by such loans are subject to risks of delinquency, foreclosure and loss. The ability of the borrower to repay a loan secured by either residential or commercial property is dependent upon the income of the borrower. In the event of a default under a mortgage, the holder of the mortgage loan bears the risk of loss of principal to the extent of any deficiency between the value of the collateral and the unpaid principal balance and accrued interest of the mortgage loan.

For our mortgage credit investments, we accept mortgage credit exposure at levels we deem prudent within the context of our overall investment strategy. We may retain all or a portion of the credit risk on the loans underlying non-agency MBS in which we may invest. We seek to manage our credit risk through prudent asset selection, pre-acquisition due diligence, post-acquisition performance monitoring, and the sale of assets for which we identify negative credit trends. Additionally, we vary the percentage mix of our agency MBS and mortgage credit investments in an effort to actively adjust our credit exposure and to improve the risk/return profile of our investment portfolio.

- **Liquidity Risk**

Liquidity risk is the risk that we may be unable to meet our obligations as they come due because of our inability to liquidate assets or obtain funding. Upon the maturity of our repurchase agreement financing, we may be unable to obtain repurchase agreement funding and may be required to sell assets, potentially at a loss.

Liquidity risk also includes the risk that we are unable to fund daily margin requirements under our repurchase agreement financing or hedging instruments. Repurchase agreements contain provisions that require us to pledge additional assets daily to

the repurchase agreement counterparty in the event the estimated fair value of the existing pledged collateral declines and such lender demands additional collateral, which may take the form of additional securities or cash. Interest rate hedging instruments also contain provisions that require us to exchange daily cash variation margin with the counterparty based upon daily changes in the fair value of the interest rate hedging instruments.

- **Regulatory Risk**

Regulatory risk is the risk of loss, including fines, penalties or restrictions in our activities from failing to comply with current or future federal, state or local laws (including federal and state securities laws), and rules and regulations pertaining to financial services activities, including the loss of our exclusion from regulation as an investment company under the 1940 Act.

We attempt to manage the above risks through the use of interest rate hedging instruments, asset selection and monitoring our overall leverage levels.

One of the principal instruments that we use to hedge a portion of our exposure to interest rate, prepayment and extension risks are interest rate hedging instruments primarily consisting of interest rate swaps and U.S. Treasury note futures. We also may use other interest rate hedging instruments such as options on U.S. Treasury note futures, options on agency MBS, Eurodollar futures, interest rate swap futures, interest rate swaptions, and short TBA positions, from time to time.

In addition to the hedging instruments discussed above, we also manage our exposure to interest rate, prepayment, extension and credit risk through asset selection. Agency MBS with different original maturities, coupons, vintage and loan collateral characteristics will generally perform differently in various economic and interest rate environments. We generally seek to invest in agency MBS that are specifically selected for their relatively lower propensity for prepayment. The pools of residential mortgage loans securing these agency MBS are commonly referred to as “specified pools.” These specified pools may include mortgage loans that (i) have low loan balances, (ii) are originated through the Home Affordable Refinance Program (“HARP”) or some other government program, (iii) are originated in certain states or geographic areas, (iv) have high loan-to-value ratios, (v) are the obligations of borrowers with credit scores that fall toward the lower end of the range of GSEs’ underwriting standards, or (vi) are secured by investor properties. The borrowers of these mortgage loans are believed to have less incentive to refinance. Accordingly, agency MBS collateralized by mortgage loans with these characteristics are believed to be better “protected” from prepayment risk than agency MBS collateralized by more generic pools of mortgage loans. In general, agency MBS backed by specified pools trade at a price premium over generic agency TBA securities. As of December 31, 2019, our agency MBS portfolio is comprised primarily of securities backed by specified pools selected for their lower prepayment characteristics.

To the extent that we employ greater leverage in our investment strategy, our exposure to the above market risks will generally be greater. Accordingly, we carefully monitor our overall leverage levels to manage our exposure to interest rate, prepayment, extension, spread and credit risks.

The risk management actions we take may lower our earnings and dividends in the short term to further our objective of maintaining attractive levels of earnings and dividends over the long term. In addition, some of our hedges are intended to provide protection against larger rate moves and, as a result, may be relatively ineffective for smaller changes in interest rates. There can be no certainty that our projections of our exposures to interest rate, prepayment, extension, credit or other risks will be accurate or that our hedging activities will be effective and, therefore, actual results could differ materially.

## **Competition**

Our success depends, in large part, on our ability to acquire our targeted mortgage investments at favorable spreads over our borrowing costs. In acquiring these assets, we compete with mortgage finance and specialty finance companies, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, institutional investors, mortgage real estate investment trusts, investment banking firms, other lenders, the U.S. Treasury, Fannie Mae, Freddie Mac, other governmental bodies, and other entities. In addition, there are numerous entities with similar asset acquisition objectives and others may be organized in the future which may increase competition for the available supply of our targeted mortgage investments that meet our investment objectives. Additionally, our investment strategy is dependent on the amount of financing available to us in the repurchase agreement market, which may also be impacted by competing borrowers. Our investment strategy will be adversely impacted if we are not able to secure financing on favorable terms, if at all. In addition, competition is intense for the recruitment and retention of qualified professionals. Our ability to continue to compete effectively in our businesses will depend upon our continued ability to attract new professionals and retain and motivate our existing professionals. For a further discussion of the competitive factors affecting our business, see “Item 1A - Risk Factors” in this Annual Report on Form 10-K.

## Our Tax Status

We intend to elect to be taxed as a REIT under the Internal Revenue Code upon filing our tax return for our taxable year ended December 31, 2019. As a REIT, we are required to distribute annually 90% of our REIT taxable income (subject to certain adjustments). So long as we continue to qualify as a REIT, we will generally not be subject to U.S. federal or state corporate income taxes on our taxable income that we distribute to our shareholders on a timely basis. Any amounts not distributed are subject to U.S. federal and state corporate taxes. At present, it is our intention to distribute 100% of our taxable income, although we will not be required to do so. We intend to make distributions of our taxable income within the time limits prescribed by the Internal Revenue Code, which may extend into the subsequent taxable year. For our tax years ended December 31, 2018 and earlier, we were taxed as a C corporation for U.S. federal tax purposes.

Qualification and taxation as a REIT depends upon our ability to continually meet requirements imposed upon REITs by the Internal Revenue Code, including satisfying certain organizational requirements, an annual distribution requirement and quarterly asset and annual income tests. The REIT asset and income tests are significant to our operations as they restrict the extent to which we can invest in certain types of securities and conduct certain hedging activities within the REIT.

### *Income Tests*

To qualify as a REIT, we must satisfy two gross income requirements on an annual basis:

1. At least 75% of our gross income for each taxable year generally must be derived from investments in real property or mortgages on real property.
2. At least 95% of our gross income for each taxable year generally must be derived from some combination of income that qualifies under the 75% gross income test described above, as well as other dividends, interest, gains from the sale or disposition of stock or securities, which need not have any relation to real property.

Interest income and gains from the disposition of obligations secured by mortgages on real property, such as agency MBS, constitute qualifying income for purposes of the 75% gross income test described above. There is no direct authority with respect to the qualification of income or gains from TBAs for the 75% gross income test; however, we treat income and gains from commitments to purchase TBAs as qualifying income under the 75% gross income test based on an opinion of legal counsel.

Income earned by a taxable REIT subsidiary (“TRS”) is not attributable to the REIT. As a result, income that might not be qualifying income for the purpose of the income tests applicable to a REIT could be earned by a TRS without affecting our status as a REIT. A TRS is an entity that is taxable as a corporation in which we directly or indirectly own the stock and that elects with us to be treated as a TRS.

Income and gains from instruments that we use to hedge the interest rate risk associated with our borrowings incurred, or to be incurred, to acquire real estate assets will generally be excluded from both gross income tests, provided that specified requirements are met. To the extent that we enter into hedging instruments that are not a hedge of our interest rate risk associated with our borrowings incurred to acquire real estate assets or are not properly designated as such, the gross income and gains from such hedging transactions will likely be treated as nonqualifying income for purposes of the 75% gross income test and may also be treated as nonqualifying income for purposes of the 95% gross income test. However, we may conduct such hedging activities through a TRS, the income of which may be subject to income tax rather than participating in the arrangements directly through the REIT.

### *Asset Tests*

At the close of each calendar quarter, we must satisfy five gross asset tests relating to the nature of our assets:

1. At least 75% of the value of our assets must be represented by some combination of real estate assets, cash, cash items, U.S. Government securities, stock in other REITs and debt instruments of publicly offered REITs, and, under some circumstances, temporary investments in stock or debt instruments purchased with new capital. For this purpose, interests in mortgage loans secured by real property such as agency MBS are treated as real estate assets. Assets that do not qualify for purposes of the 75% asset test are subject to the additional tests described below.
2. The value of any one issuer’s securities that we own may not exceed 5% of the value of our total assets.
3. We may not own more than 10% of any issuer’s outstanding securities, as measured by either voting power or value. The 5% and 10% asset tests do not apply to securities of TRSs and qualified REIT subsidiaries and the 10% test does not apply to “straight debt” having specified characteristics and to certain other securities.

4. The aggregate value of all securities of all TRSs that we hold may not exceed 20% of the value of our total assets.
5. No more than 25% of the total value of our assets may be represented by certain non-mortgage debt instruments issued by publicly offered REITs.

If we should fail to satisfy the income or asset tests, such a failure would not cause us to lose our REIT qualification if we were able to eliminate the discrepancy within a specified cure period, in the case of the asset tests, satisfy certain relief provisions and pay any applicable penalty taxes and other fines. Please refer to the “Risks Related to Taxation” in “Item 1A Risk Factors” of this Form 10-K for further discussion of REIT qualification requirements and related items.

#### *Net Operating Loss and Net Capital Loss Carryforwards*

As of December 31, 2019, we had estimated net operating loss (“NOL”) carryforwards of \$14.6 million that can be used to reduce our future distribution requirements. Our NOL carryforwards expire in 2028. As of December 31, 2019, we also had estimated net capital loss (“NCL”) carryforwards of \$283.3 million that can be used to offset future net capital gains. The scheduled expirations of our NCL carryforwards are \$102.3 million in 2020, \$66.9 million in 2021, \$3.8 million in 2022 and \$110.3 million in 2023.

Our ability to use our NOLs, NCLs and built-in losses would be limited if we experienced an “ownership change” under Section 382 of the Internal Revenue Code. In general, an “ownership change” would occur if there is a cumulative change in the ownership of our common stock of more than 50% by one or more “5% shareholders” during a three-year period. Our Board of Directors adopted and our shareholders approved a shareholder rights agreement and the first amendment thereto, in an effort to protect against a possible limitation on the our ability to use our NOL carryforwards, NCL carryforwards, and built-in losses under Sections 382 and 383 of the Internal Revenue Code. The Rights Plan was adopted to dissuade any person or group from acquiring 4.9% or more of our outstanding Class A common stock without the approval of our Board of Directors and triggering an “ownership change” as defined by Section 382.

#### **Our Exclusion from Regulation as an Investment Company**

We intend to operate so as to be excluded from regulation under the 1940 Act. We rely on Section 3(c)(5)(C) of the 1940 Act, which provides an exclusion for entities that are “primarily engaged in purchasing or otherwise acquiring . . . interests in real estate.” Section 3(c)(5)(C) as interpreted by the staff of the SEC provides an exclusion from registration for a company if at least 55% of its assets, on an unconsolidated basis, consist of qualified assets such as whole loans and whole pool agency certificates, and if at least 80% of its assets, on an unconsolidated basis, are real estate related assets. We will need to ensure not only that we qualify for an exclusion or exemption from regulation under the 1940 Act, but also that each of our subsidiaries qualifies for such an exclusion or exemption. We intend to maintain our exclusion by monitoring the value of our interests in our subsidiaries. We may not be successful in this regard.

If we fail to maintain our exclusion or secure a different exclusion or exemption if necessary, we may be required to register as an investment company, or we may be required to acquire or dispose of assets in order to meet our exemption. Any such asset acquisitions or dispositions may include assets that we would not acquire or dispose of in the ordinary course of business, may be at unfavorable prices and result in a decline in the price of our common stock. If we are required to register under the 1940 Act, we would become subject to substantial regulation with respect to our capital structure (including our ability to use leverage), management, operations, transactions with affiliated persons (as defined in the 1940 Act), and portfolio composition, including restrictions with respect to diversification and industry concentration and other matters. Accordingly, registration under the 1940 Act could limit our ability to follow our current investment and financing strategies and result in a decline in the price of our common stock.

#### **Available Information**

Our SEC filings are available to the public from commercial document retrieval services and at the internet website maintained by the SEC at <http://www.sec.gov> and on our website at <http://www.arlingtonasset.com> under “Investor Relations.”

Our website address is <http://www.arlingtonasset.com>. We make available free of charge through our website this Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as well as the annual report to shareholders and Section 16 reports on Forms 3, 4 and 5 as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the SEC. In addition, our Bylaws, Statement of Business Principles (our code of ethics), Corporate Governance Guidelines, and the charters of our Audit, Compensation, and Nominating and Governance Committees are available on our website and are available in print, without charge, to any shareholder upon written request in writing c/o our Secretary at 6862 Elm Street, Suite 320, McLean, Virginia 22101.

Information on our website should not be deemed to be a part of this report or incorporated into any other filings we make with the SEC.

**Employees**

As of December 31, 2019, we had 11 employees. Our employees are not subject to any collective bargaining agreement, and we believe that we have good relations with our employees.

## ITEM 1A. RISK FACTORS

*Investing in our company involves various risks, including the risk that you might lose your entire investment. Our results of operations depend upon many factors including our ability to implement our business strategy, the availability of opportunities to acquire assets, the level and volatility of interest rates, the cost and availability of short- and long-term credit, financial market conditions and general economic conditions.*

*The following discussion concerns the material risks associated with our business. These risks are interrelated, and you should consider them as a whole. Additional risks and uncertainties not presently known to us may also materially and adversely affect the value of our capital stock and our ability to pay dividends to our shareholders. In connection with the forward-looking statements that appear in this Annual Report on Form 10-K, including these risk factors and elsewhere, you should carefully review the section entitled “Cautionary Statement About Forward-Looking Information.”*

### **Risks Related to our Investing and Financing Activities**

***Changes in interest rates and adverse market conditions could negatively affect the value of our MBS investments and increase the cost of our borrowings, which could result in reduced earnings or losses and negatively affect the cash available for distribution to our shareholders.***

Our investment portfolio consists primarily of fixed-rate agency MBS with long-term maturities. The majority of our funding is in the form of repurchase agreements with short-term maturities with a floating interest rate based on LIBOR (which is under reform and may be replaced). We are exposed to interest rate risk that fluctuates based on changes in the level or volatility of interest rates and in the shape and slope of the yield curve. Under a normal yield curve, long-term interest rates are higher relative to short-term interest rates. In certain instances, the yield curve can become inverted when the short-term interest rates are higher than the long-term interest rates.

A significant risk associated with our portfolio of mortgage-related assets is the risk that both long-term and short-term interest rates will increase significantly. If long-term rates were to increase significantly, the market value of fixed-rate agency MBS would decline and the duration and weighted average life of these MBS would increase. We could realize a loss in the future if the agency MBS in our portfolio are sold. If short-term interest rates were to increase, the financing costs on the repurchase agreements we enter into in order to finance the purchase of MBS would increase, thereby decreasing net interest margin if all other factors remain constant.

***Hedging against interest rate exposure may not completely insulate us from interest rate risk and may adversely affect our earnings, which could adversely affect cash available for distribution to our shareholders.***

We engage in certain hedging transactions to limit our exposure from the adverse effects of changes in interest rates on the borrowing costs of our short-term financing agreements and the value of our fixed-rate agency MBS investment portfolio, and therefore may expose our company to the risks associated with such transactions. We have historically entered into and may enter into interest rate swap agreements, U.S. Treasury note futures, Eurodollar futures, interest rate swap futures, options on U.S. Treasury note futures, options on agency MBS, TBAs or may pursue other hedging strategies. Our hedging activities are generally designed to limit certain exposures and not to eliminate them. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. Such hedging transactions may also limit the opportunity for gain if the values of the portfolio positions should increase. Moreover, it may not be possible to hedge against an interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price.

There are no perfect hedging strategies, and interest rate hedging may fail to protect us from loss. The success of our hedging transactions depends on our ability to accurately predict movements of interest rates and credit spreads. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. Furthermore, our hedging strategies may adversely affect us because hedging activities involve costs that we incur regardless of the effectiveness of the hedging activity, which may decrease our net interest margin. Our hedging activity will vary in scope based on the level and volatility of interest rates and principal prepayments, the amount of leverage, the type of MBS held, the form and tenor of financing arrangements, and other changing market conditions.

Interest rate hedging may fail to protect or could adversely affect us because, among other things:

- interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates;
- available interest rate hedging may not correspond directly with the interest rate risk for which protection is sought;

- the duration of the hedge may not match the duration of the related asset or liability;
- the amount of income that a REIT may earn from hedging transactions other than hedging transactions that satisfy certain requirements of the Internal Revenue Code or that are done through a TRS is limited by Federal tax provisions governing REITs;
- the value of our interest rate hedges declines due to interest rate fluctuations, lapse of time or other factors; and
- the party owing money in the hedging transaction may default on its obligation to pay.

Our hedging activity may adversely affect our earnings and result in volatile fluctuations in the fair value of our hedges, net income and book value per share, which could adversely affect cash available for distribution to our shareholders and the value of your investment in our securities.

***Our hedging strategies are generally not designed to mitigate spread risk.***

When the market spread widens between the yield on our mortgage assets and benchmark interest rates, our net book value could decline if the fair value of our mortgage assets falls by more than the offsetting fair value increases on our hedging instruments tied to the underlying benchmark interest rates or if the fair value of our mortgage assets do not increase as much as the fair value decreases on our hedging instruments. We refer to this scenario as an example of “spread risk” or “basis risk.” The spread risk associated with our mortgage assets and the resulting fluctuations in fair value of these securities can occur independently of changes in benchmark interest rates and may relate to other factors impacting the mortgage and fixed income markets, such as actual or anticipated monetary policy actions by the Federal Reserve, market liquidity, changes in expected prepayments, or changes in required rates of return on different assets. Consequently, while we use various interest rate hedging instruments to attempt to protect against moves in interest rates, such instruments typically will not protect our net book value against spread risk, which could adversely affect our financial condition and results of operations.

***Declines in the market values of our investment portfolio may adversely affect our financial condition, results of operations, and market price of your investments in our securities.***

Our investments are recorded at fair value with changes in fair value reported in net income. As a result, a decline in the fair value of our investments would reduce our net income and book value per share. Fair values for our investments can be volatile. The fair values can change rapidly and significantly, and changes can result from various factors, including changes in interest rates, actual and perceived risk, supply, demand, expected prepayment rates, and actual and projected credit performance. Declines in the market values of our investment portfolio would adversely affect our financial condition, results of operations, and market price of your investments in our securities.

***Our mortgage investing strategy involves significant leverage, which could adversely affect our operations and negatively affect cash available for distribution to our shareholders.***

We may increase our investment exposure in MBS or other investment opportunities by funding a portion of those acquisitions with repurchase agreements or other borrowing arrangements. To the extent that revenue derived from such levered assets exceeds our interest expense, hedging expense and other costs of the financing, our net income will be greater than if we had not borrowed funds and had not invested in such assets on a leveraged basis. Conversely, if the revenue from our MBS does not sufficiently cover the interest expense, hedging expense and other costs of the financing, our net income will be less or our net loss will be greater than if we had not borrowed funds. Because of the credit and interest rate risks inherent in our strategy, we closely monitor the leverage of our investment portfolio. From time to time, our leverage ratio may increase or decrease due to several factors, including changes in the value of the underlying portfolio, changes in investment allocations and the timing and amount of acquisitions.

***An increase in our borrowing costs relative to the interest we receive on our assets may impair our profitability and thus our cash available for distribution to our shareholders.***

As our repurchase agreements and other short-term borrowings mature, we must either enter into new borrowings or liquidate certain of our investments at times when we might not otherwise choose to do so. Lenders may also seek to use a maturity date as an opportune time to demand additional terms or increased collateral requirements that could be adverse to us and harm our operations. Due to the short-term nature of our repurchase agreements used to finance our investments, our borrowing costs are particularly sensitive to changes in short-term interest rates. An increase in short-term interest rates when we seek new borrowings would reduce the spread between our returns on our assets and the cost of our borrowings. This would reduce the returns on our assets, which might reduce earnings and in turn cash available for distribution to our shareholders.



***Differences in the stated maturity of our fixed-rate assets and short-term borrowings may adversely affect our profitability.***

We rely primarily on short-term, variable rate borrowings to acquire fixed-rate securities with long-term maturities. The relationship between short-term and longer-term interest rates is often referred to as the “yield curve.” Ordinarily, short-term interest rates are lower than longer-term interest rates. If short-term interest rates rise disproportionately relative to longer-term interest rates, resulting in a “flattening” of the yield curve, our borrowing costs may increase more rapidly than the interest income earned on our assets. Because our investments generally bear interest at longer-term rates than we pay on our borrowings under our repurchase agreements, a flattening of the yield curve would tend to decrease our net interest income and the market value of our investment portfolio. Additionally, to the extent cash flows from investments that return scheduled and unscheduled principal are reinvested, the spread between the yields on the new investments and available borrowing rates may decline, which would likely decrease our net income. It is also possible that short-term interest rates may exceed longer-term interest rates (a yield curve “inversion”), in which event, our borrowing costs may exceed our interest income and we could incur operating losses and our ability to make distributions to our shareholders could be hindered.

***Our lenders may require us to provide additional collateral, especially when the market values for our investments decline, which may restrict us from leveraging our assets as fully as desired, and reduce or eliminate our liquidity, earnings and cash available for distribution to our shareholders.***

We currently use repurchase agreements to finance our investments in residential MBS and other mortgage assets. Our repurchase agreements allow the lenders, to varying degrees, to determine a new market value of the collateral to reflect current market conditions. If the market value of the securities pledged or sold by us to a funding source declines in value, we may be required by the lender to provide additional collateral or pay down a portion of the funds advanced on minimal notice, which is known as a margin call. Posting additional collateral will reduce our liquidity and limit our ability to leverage our assets, which could adversely affect our business. Additionally, in order to satisfy a margin call, we may be required to liquidate assets at a disadvantageous time, which could cause us to incur further losses and adversely affect our results of operations and financial condition, and may impair our ability to make distributions to our shareholders. In the event we do not have sufficient liquidity to satisfy these margin calls, lending institutions can accelerate our indebtedness, increase our borrowing rates, liquidate our collateral and terminate our ability to borrow. Such a situation would likely result in a rapid deterioration of our financial condition and possibly necessitate a filing for protection under the bankruptcy code.

***Clearing facilities or exchanges upon which some of our hedging instruments are traded may increase margin requirements on our hedging instruments in the event of adverse economic developments.***

Our interest rate hedging agreements typically require that we pledge collateral on such agreements. We exchange collateral with the counterparties to our interest rate hedging instruments at least on a daily basis based upon daily changes in fair value (also known as “variation margin”) as measured by the central clearinghouse through which those instruments are cleared. In addition, the central clearinghouse requires market participants to deposit and maintain an “initial margin” amount which is determined by the clearinghouse and is generally intended to be set at a level sufficient to protect the clearinghouse from the maximum estimated single-day price movement in that market participant’s contracts. The clearing exchanges have the sole discretion to determine the value of the instruments. In the event of a margin call, we must generally provide additional collateral on the same business day. In response to events having or expected to have adverse economic consequences or which create market uncertainty, clearing facilities or exchanges upon which our hedging instruments are traded may require us to pledge additional collateral against our hedging instruments. In the event that future adverse economic developments or market uncertainty result in increased margin requirements for our hedging instruments, it could materially adversely affect our liquidity position, business, financial condition and results of operations.

***If we fail to maintain adequate financing through repurchase agreements or to renew or replace existing borrowings upon maturity, we will be limited in our ability to implement our investing activities, which will adversely affect our results of operations and may, in turn, negatively affect the market value of your investment in our securities and our ability to make dividends to our shareholders.***

We depend upon repurchase agreement financing to purchase our target assets and reach our target leverage ratio. We cannot assure you that sufficient repurchase agreement financing will be available to us in the future on terms that are acceptable to us. Our lenders also may revise their eligibility requirements for the types of assets they are willing to finance or the terms of such financings based on, among other factors, the regulatory environment and their perceived risk. If we fail to obtain adequate funding or to renew or replace existing funding upon maturity, we will be limited in our ability to implement our business strategy, which will adversely affect our results of operations and may, in turn, negatively affect the market value of your investments in our securities and our ability to make dividends to our shareholders.

***New assets we acquire may not generate yields as attractive as yields on our current assets, resulting in a decline in our earnings over time.***

We receive monthly cash flows consisting of principal and interest payments from many of our assets. Principal payments reduce the size of our current portfolio (i.e., reduce the amount of our long-term assets) and generate cash for us. We may also sell assets from time to time as part of our portfolio management and capital reallocation strategies. In order to maintain or grow our portfolio size and our earnings, we must reinvest in new assets a portion of the cash flows we receive from principal repayments and asset sales. New investment opportunities may not generate the same investment returns as our current investment portfolio. If the assets we acquire in the future earn lower returns than the assets we currently own, our reported earnings will likely decline over time as the older assets pay down, are called, or are sold.

***Our agency MBS investments that are guaranteed by Fannie Mae and Freddie Mac are subject to the risk that these GSEs may not be fully able to satisfy their guarantee obligations or that these guarantee obligations may be repudiated, which would adversely affect the value of our investment portfolio and our ability to sell or finance these securities.***

All of the agency MBS in which we invest depend on a steady stream of payments on the mortgages underlying the MBS. The interest and principal payments we receive on agency MBS issued by Fannie Mae or Freddie Mac are guaranteed by these GSEs, but are not guaranteed by the U.S. government. To the extent these GSEs are not able to fully satisfy their guarantee obligations or that these guarantee obligations are repudiated or otherwise defaulted upon, the value of our investment portfolio and our ability to sell or finance these securities would be adversely affected.

***The conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the federal government, may adversely affect our business.***

The interest and principal payments we receive on agency MBS issued by Fannie Mae or Freddie Mac are guaranteed by these GSEs and not guaranteed by the full faith and credit of the U.S. government. Fannie Mae and Freddie Mac are currently regulated by the FHFA, HUD, SEC and U.S. Treasury, and are currently operating under the conservatorship of the FHFA, which is a statutory process pursuant to which the FHFA operates Fannie Mae and Freddie Mac in an effort to stabilize the entities. As part of these actions, the U.S. Treasury has agreed to support the continuing operations of Fannie Mae and Freddie Mac with any necessary capital contributions up to a maximum capital commitment to each GSE while in conservatorship. Although the U.S. Treasury has committed to support the positive net worth of Fannie Mae and Freddie Mac, the two GSEs could default on their guarantee obligations, which would materially and adversely affect the value of our agency MBS.

In addition, the future roles of Fannie Mae and Freddie Mac could be significantly reduced or eliminated and the nature of their guarantees could be eliminated or considerably limited relative to historical measurements. Any changes to the nature of the guarantees provided by Fannie Mae and Freddie Mac could redefine what constitutes agency MBS, have broad adverse market implications and negatively impact us. The FHFA and both houses of Congress have each discussed and considered separate measures intended to restructure the U.S. housing finance system and the operations of Fannie Mae and Freddie Mac. On March 27, 2019, President Trump issued a memorandum directing the Secretary of the Treasury to develop a plan for administrative and legislative reforms to achieve the following housing reform goals: (i) ending the conservatorships of Fannie Mae and Freddie Mac upon the completion of specific reforms; (ii) facilitating competition in the housing finance market; (iii) establishing regulation of the GSEs that safeguards their safety and soundness and minimizes the risks they pose to the financial stability of the United States; and (iv) providing that the Federal government is properly compensated for any explicit or implicit support it provides the GSEs or the secondary housing finance market. On September 5, 2019, the U.S. Treasury released its plan of recommended legislative and administrative reforms to the housing finance system to achieve the goals outlined in the Presidential memorandum. Since the release of the U.S. Treasury's plan of recommended reforms to the housing finance system, there have been preliminary actions taken to advance the goals in the plan of recapitalizing and ending the conservatorship of the GSEs. First, on September 27, 2019, the FHFA and U.S. Treasury entered into an agreement that permits Fannie Mae and Freddie Mac to retain up to \$25 billion and \$20 billion, respectively, in capital. As part of the agreement, the liquidation preference of the U.S. Treasury's senior preferred stock positions in Fannie Mae and Freddie Mac will be increased by a commensurate amount until the liquidation preferences increase by \$22 billion for Fannie Mae and \$17 billion for Freddie Mac. Second, on October 4, 2019, the FHFA released a solicitation for advisory services to assist in the formulation and potential implementation of a roadmap to responsibly end the conservatorships of the GSE.

The passage of any additional new legislation affecting Fannie Mae and Freddie Mac may create market uncertainty and reduce the actual or perceived credit quality of securities issued or guaranteed by the U.S. government through a new or existing successor entity to Fannie Mae and Freddie Mac. If the charters of Fannie Mae and Freddie Mac were revoked, it is unclear what effect, if any, this would have on the value of the existing Fannie Mae and Freddie Mac agency MBS. We anticipate debate and discussion on residential housing and mortgage reform to continue throughout 2020; however, we cannot be certain if any housing and/or mortgage-related legislation will emerge from committee, be approved by Congress, or be affected by any executive actions and, if so, what the effect will be on our business.

***Market conditions may disrupt the historical relationship between interest rate changes and prepayment trends, which would make it more difficult for us to analyze our investment portfolio.***

Our success depends on our ability to analyze the relationship of changing interest rates on prepayments of the mortgage loans that underlie our MBS. Changes in interest rates and prepayments affect the market price of MBS that we intend to purchase and any MBS that we hold at a given time. As part of our overall portfolio risk management, we analyze interest rate changes and prepayment trends separately and collectively to assess their effects on our investment portfolio. In conducting our analysis, we depend on certain assumptions based upon historical trends with respect to the relationship between interest rates and prepayments under normal market conditions. Dislocations in the residential mortgage market and other developments may change the way that prepayment trends have historically responded to interest rate changes and, consequently, may negatively impact our ability to (i) assess the impact of future changes in interest rates and prepayments on the market value of our investment portfolio, (ii) implement our hedging strategies, and (iii) implement techniques to reduce our prepayment rate volatility would be significantly affected. If we are unable to accurately forecast interest and prepayment rates, our financial position and results of operations could be materially adversely affected.

***Changes in prepayment rates may adversely affect our profitability and are difficult to predict.***

Our investment portfolio includes securities backed by pools of residential mortgage loans. For securities backed by pools of residential mortgage loans, we receive income, generally, from the payments that are made by the borrowers of the underlying mortgage loans. When borrowers prepay their mortgage loans at rates that are faster or slower than expected, it results in prepayments that are faster or slower than expected on our investments. These faster or slower than expected payments may adversely affect our profitability.

We may purchase securities that have a higher interest rate than the then-prevailing market interest rate. In exchange for this higher interest rate, we may pay a premium to par value to acquire such securities. In accordance with GAAP, we amortize this premium as a reduction to interest income under the contractual interest method so that a proportional amount of the unamortized premium is amortized as principal prepayments occur. If a security is prepaid in whole or in part at a faster rate than originally expected, we will amortize the purchased premium at a faster pace resulting in a lower effective return on our investment than originally expected.

We also may purchase securities that have a lower interest rate than the then-prevailing market interest rate. In exchange for this lower interest rate, we may pay a discount to par value to acquire such securities. In accordance with GAAP, we accrete this discount as an increase to interest income under the contractual interest method so that a proportional amount of the unamortized discount is accreted as principal prepayments occur. If a security is prepaid in whole or in part at a slower rate than originally expected, we will accrete the purchased discount at a slower pace resulting in a lower effective return on our investment than originally expected.

Moreover, if prepayment rates decrease due to a rising interest rate environment, the average life or duration of our fixed-rate assets will generally be extended. This could have a negative impact on our results from operations, as the maturities of our interest rate hedges are fixed and will, therefore, cover a smaller percentage of our funding exposure on our MBS assets to the extent that the average lives of the mortgages underlying such MBS increase due to slower prepayments.

Homeowners tend to prepay mortgage loans more quickly when interest rates decline. Although prepayment rates generally increase when interest rates fall and decrease when interest rates rise, changes in prepayment rates are difficult to predict. Prepayments may also occur as the result of an improvement in the borrower's ability to refinance the loan as a result of home price appreciation or wage growth. Prepayments can also occur when borrowers sell the property and use the sale proceeds to prepay the mortgage as part of a physical relocation or when borrowers default on their mortgages and the mortgages are prepaid from the proceeds of a foreclosure sale of the property. Fannie Mae and Freddie Mac will generally, among other conditions, purchase mortgages that are 120 days or more delinquent from holders of such mortgages when the cost of guarantee payments to such holders, including advances of interest at the loan coupon rate, exceeds the cost of holding the nonperforming loans in their portfolios. Consequently, prepayment rates also may be affected by conditions in the housing and financial markets, which may result in increased delinquencies on mortgage loans, the GSEs' cost of capital, general economic conditions and the relative interest rates on fixed and adjustable rate loans, which could lead to an acceleration of the payment of the related principal. Furthermore, changes in the GSEs' policies regarding the repurchase of delinquent loans can materially impact prepayment rates. In addition, the introduction of new government programs could increase the availability of mortgage credit to a large number of homeowners in the United States, which could impact the prepayment rates for the entire MBS market, and in particular for agency MBS. Any new programs or changes to existing programs could cause substantial uncertainty around the magnitude of changes in prepayment speeds.

Faster or slower than expected prepayments may adversely affect our profitability and cash available for distribution to our shareholders and are difficult to predict.

***The Federal Reserve's balance sheet normalization program of reducing its holdings of longer-term U.S. Treasury securities and agency MBS may adversely affect the price and return associated with agency MBS.***

In response to the global financial crisis that began in 2007, the Federal Reserve undertook extraordinary accommodative monetary policies, including large-scale open-market purchases of longer-term U.S. Treasury securities and agency MBS leading to a significant growth in the size of the Federal Reserve's balance sheet. In October 2017, the Federal Reserve initiated a balance sheet normalization policy to gradually reduce its holdings of U.S. Treasury securities and agency MBS by gradually reducing its reinvestment of principal payments of U.S. Treasury securities and agency MBS. However, in March 2019 the Federal Reserve modified its balance sheet normalization policy. More specifically, the Federal Reserve stated that it would slow the pace of the reduction of its holdings of U.S. Treasury through the end of September 2019 with the goal of generally maintaining its aggregate holdings thereafter; however, the Federal Reserve intends to continue to allow its holdings of agency MBS to decline with any principal payments from agency MBS reinvested in U.S. Treasury securities beginning in October 2019.

We cannot predict the impact of the Federal Reserve's balance sheet normalization policy could have on the prices and liquidity of agency MBS or on mortgage spreads relative to interest rate hedges tied to benchmark interest rates. However, during periods in which the Federal Reserve reduces or ceases reinvestment of principal payments or undertakes outright sales of its securities portfolio, the price of agency MBS and U.S. Treasury securities will likely decline, mortgage spreads will likely widen, refinancing volumes will likely be lower and market volatility will likely be higher than would have been absent such actions and our net book value could be adversely affected.

***It may be uneconomical to "roll" our TBA dollar roll transactions or we may be unable to meet margin calls on our TBA commitments, which could negatively affect our financial condition and results of operations.***

We may utilize TBA dollar roll transactions as a means of investing in and financing agency MBS. TBA contracts enable us to purchase or sell, for future delivery, agency MBS with certain principal and interest terms and certain types of collateral, but the particular agency MBS to be delivered are not identified until shortly before the TBA settlement date. Prior to settlement of the TBA contract, we may choose to move the settlement of the securities out to a later date by entering into an offsetting position (referred to as a "pair off"), net settling the paired off positions for cash, and simultaneously purchasing a similar TBA contract for a later settlement date, collectively referred to as a "dollar roll." The agency MBS purchased for a forward settlement date under the TBA contract are typically priced at a discount to agency MBS for settlement in the current month. This difference (or discount) is referred to as the "price drop." As discussed under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations— "Non-GAAP Core Operating Income," we believe this price drop is the economic equivalent of net interest carry income on the underlying agency MBS over the roll period (interest income less implied financing cost), which is commonly referred to as "dollar roll income." Consequently, dollar roll transactions and such forward purchases of agency MBS represent a form of off-balance sheet financing.

Under certain market conditions, TBA dollar roll transactions may result in negative carry income whereby the agency MBS purchased for a forward settlement date under the TBA contract are priced at a premium to agency MBS for settlement in the current month. Under such conditions, it may be uneconomical to roll our TBA positions prior to the settlement date and we could have to take physical delivery of the underlying securities and settle our obligations for cash. We may not have sufficient funds or alternative financing sources available to settle such obligations.

In addition, our TBA contracts are subject to master securities forward transaction agreements published by SIFMA as well as supplemental terms and conditions with each counterparty. Under the terms of these agreements, we may be required to pledge collateral to our counterparty in the event the fair value of our agency MBS commitments decline and such counterparty demands collateral through a margin call.

Negative carry income on TBA dollar roll transactions or failure to procure adequate financing to settle our obligations or meet margin calls under our TBA contracts could result in defaults or force us to sell assets under adverse market conditions or through foreclosure and adversely affect our financial condition and results of operations.

***Our use of repurchase agreements may give our lenders greater rights in the event that either we or any of our lenders file for bankruptcy, which may make it difficult for us to recover our collateral.***

Our borrowings under repurchase agreements may qualify for special treatment under the bankruptcy code, giving our lenders the ability to avoid the automatic stay provisions of the bankruptcy code and take possession of and liquidate our collateral under the repurchase agreements without delay if we file for bankruptcy. Furthermore, the special treatment of repurchase agreements under the bankruptcy code may make it difficult for us to recover our pledged assets in the event that any of our lenders file for bankruptcy. Thus, the use of repurchase agreements exposes our pledged assets to risk in the event of a bankruptcy filing by either our lenders or us. In addition, if the lender is a broker or dealer subject to the Securities Investor Protection Act of 1970 or an insured depository institution subject to the Federal Deposit Insurance Act, our ability to exercise our rights to recover our investment under a repurchase agreement or to be compensated for any damages resulting from the lender's insolvency may be further limited by those statutes.

***If the lending institution under one or more of our repurchase agreements defaults on its obligation to resell the underlying security back to us at the end of the agreement term, we will lose money on our repurchase transactions.***

When we engage in a repurchase transaction, we initially sell securities to the transaction counterparty under a master repurchase agreement in exchange for cash from the counterparty. The counterparty is obligated to resell the same securities back to us at the end of the term of the repurchase agreement, which typically is 30 to 60 days, but may have terms from one day to up to three years or more. The cash we receive when we initially sell the collateral is less than the value of the collateral, which is referred to as the “haircut.” If the counterparty in a repurchase transaction defaults on its obligation to resell the securities back to us, we will incur a loss on the transaction equal to the amount of the haircut (assuming no change in the value of the securities). Losses incurred on our repurchase transactions would adversely affect our earnings and our cash available for distribution to our shareholders.

***If we default on our obligations under our repurchase agreements, we may be unable to establish a suitable replacement facility on acceptable terms or at all.***

If we default on one of our obligations under a repurchase agreement, the counterparty may terminate the agreement and cease entering into any other repurchase agreements with us. In that case, we would likely need to establish a replacement repurchase facility with another financial institution in order to continue to leverage the assets in our investment portfolio and to carry out our investment strategy. We may be unable to establish a suitable replacement repurchase facility on acceptable terms or at all.

***Despite current indebtedness levels, we may still be able to incur substantially more debt, which could have important consequences to you.***

As of December 31, 2019, we had total unsecured indebtedness (excluding payables, derivative liabilities and repurchase agreement financing) of \$75.3 million, which includes \$25.0 million in principal amount of our 6.625% senior notes due 2023, \$35.3 million in principal amount of our 6.75% senior notes due 2025, and \$15.0 million in principal amount of subordinated unsecured long-term debentures due between 2033 and 2035. Our level of indebtedness could have important consequences to you, because:

- it could affect our ability to satisfy our financial obligations;
- a substantial portion of our cash flows from operations will have to be dedicated to interest and principal payments and may not be available for operations, expansion, acquisitions or general corporate or other purposes;
- it may impair our ability to obtain additional debt or equity financing in the future;
- it may limit our ability to refinance all or a portion of our indebtedness on or before maturity;
- it may limit our flexibility in planning for, or reacting to, changes in our business and industry;
- it may make it more difficult to meet REIT distribution requirements; and
- it may make us more vulnerable to downturns in our business, our industry or the economy in general.

Our operations may not generate sufficient cash to enable us to service our debt. If we fail to make payment on the senior notes, we could default on the senior notes.

***The expected future discontinuation of LIBOR and selection of an alternative reference rate may adversely affect the value of the financial obligations to be held or issued by us that are linked to LIBOR.***

On July 27, 2017, the U.K. Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021, which could either cause LIBOR to stop publication immediately or cause LIBOR’s regulator to determine that its quality had degraded to the degree that it is no longer representative of its underlying market. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large US financial institutions, is considering replacing U.S. dollar LIBOR with the Secured Overnight Financing Rate (“SOFR”), a new index calculated by short-term repurchase agreements, backed by Treasury securities. The Federal Reserve Bank of New York began publishing SOFR rates in April 2018. The market transition away from LIBOR and towards SOFR is expected to be gradual and complicated. There are significant differences between LIBOR and SOFR, such as LIBOR being an unsecured lending rate and SOFR a secured lending rate, and SOFR is an overnight rate and LIBOR reflects term rates at different maturities. These and other differences create the potential for basis risk between the two rates. It is possible that not all of our assets and liabilities will transition away from LIBOR at the same time, and it is possible that not all of our assets and liabilities will transition to the same alternative reference rate, in each case increasing the difficulty of hedging. The impact of any basis risk between LIBOR and SOFR may negatively affect our operating results. Any of these alternative methods may result in interest rates that are higher than if LIBOR were available in its current form, which could have a material adverse effect on results.

We are party to various financial instruments which include LIBOR as a reference rate. As of December 31, 2019, these financial instruments include interest rate swap agreements, a mortgage loan investment, and preferred stock and unsecured notes issued by us.

At this time, it is not possible to predict the effect of any such changes, any establishment of alternative reference rates or any other reforms to LIBOR that may be implemented in the U.K. or elsewhere. Uncertainty as to the nature of such potential changes, alternative reference rates or other reforms may adversely affect the market for or value of any securities on which the interest or dividend is determined by reference to LIBOR, loans, derivatives and other financial obligations or on our overall financial condition or results of operations. The process of transition involves operational risks, and it is possible that no transition will occur for many financial instruments. More generally, any of the above changes or any other consequential changes to LIBOR or any other “benchmark” as a result of international, national or other proposals for reform or other initiatives or investigations, or any further uncertainty in relation to the timing and manner of implementation of such changes, could have a material adverse effect on the value of and return on any securities based on or linked to a “benchmark.”

***Limitations on our access to capital could impair our liquidity and our ability to conduct our business.***

Liquidity, or ready access to funds, is essential to our business. Failures of similar businesses have often been attributable in large part to insufficient liquidity. Liquidity is of particular importance to our business and perceived liquidity issues may affect our counterparties’ willingness to engage in transactions with us. Our liquidity could be impaired due to circumstances that we may be unable to control, such as a general market disruption, the payment of significant legal defense and indemnification costs, expenses, damages or settlement amounts, or an operational problem that affects us or third parties. Further, our ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time or the market is experiencing significant volatility. Our inability to maintain adequate liquidity would materially harm our business and operations.

***Our due diligence of potential investments may not reveal all of the liabilities associated with those investments and may not reveal aspects of the investments which could lead to lower expected investment returns or investment losses.***

Before making certain investments, we may undertake due diligence efforts with respect to various aspects of the acquisition, including investigating the strengths and weaknesses of the originator or issuer of the asset and, in the case of purchases of non-agency MBS or mortgage loans, verifying certain aspects of the underlying securities, loans or properties themselves as well as other factors and characteristics that may be material to the performance of the investment. In making the assessment and otherwise conducting due diligence, we rely on resources available to us and, in some cases, third party information. There can be no assurance that any due diligence process that we conduct will uncover relevant facts that could be determinative of whether or not an investment will be successful.

***Our investments in mortgage-related assets where the repayment of principal and interest is not guaranteed by a U.S. government agency or GSE subject us to a potential high risk of loss.***

Investments in mortgage-related assets where repayment of principal and interest is not guaranteed by a U.S. government agency or GSE subject us to the potential risk of loss of principal and/or interest due to delinquency, foreclosure and related losses of on the underlying mortgage loans.

Residential mortgage loans underlying non-agency residential MBS are secured by residential property and are subject to risks of delinquency, foreclosure and loss. The ability of a borrower to repay a loan secured by residential property is dependent upon the income or assets of the borrower. A number of factors may impair a borrower's ability to repay the loan, including: loss of employment; divorce; illness; acts of God; acts of war or terrorism; adverse changes in national and local economic and market conditions; changes in laws and regulations, fiscal policies and zoning ordinances and the related costs of complying with such laws and regulations, fiscal policies and ordinances; costs of remediation and liabilities associated with environmental conditions such as mold; and the potential for uninsured or under-insured property losses.

Commercial mortgage loans underlying commercial MBS are secured by commercial property and are subject to risks of delinquency and foreclosure, and risks of loss that are greater than similar risks associated with loans made on the security of residential property. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of an income producing property can be affected by, among other things: tenant mix; success of tenant businesses; property management decisions; property location and condition; competition from comparable types of properties; changes in laws that increase operating expense or limit rents that may be charged; any need to address environmental contamination at the property; the occurrence of any uninsured casualty at the property; changes in national, regional or local economic conditions or specific industry segments; declines in regional or local real estate values; declines in regional or local rental or occupancy rates; increases in

interest rates; real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies, including environmental legislation; acts of God, acts of war or terrorism, social unrest and civil disturbances.

***We depend on third-party service providers, including mortgage servicers, for a variety of services related to our non-agency MBS and mortgage loan investments. We are, therefore, subject to the risks associated with third-party service providers.***

We depend on a variety of third-party service providers related to our non-agency MBS and mortgage loan investments. We rely on the mortgage servicers who service the mortgage loans backing our non-agency MBS to, among other things, collect principal and interest payments on the underlying mortgages and perform loss mitigation services. We also rely on administrative agents who service the mortgage loans that we may directly invest in. Mortgage servicers and other service providers to our MBS, such as trustees, bond insurance providers and custodians, may not perform in a manner that promotes our interests.

***The failure of servicers to effectively service the mortgage loans underlying the non-agency MBS in our investment portfolio could materially and adversely affect us.***

Most securitizations of mortgage loans require a servicer to manage collections on each of the underlying loans. Both default frequency and default severity of loans may depend upon the quality of the servicer. If servicers are not vigilant in encouraging borrowers to make their monthly payments, the borrowers may be far less likely to make these payments, which could result in a higher frequency of default. If servicers take longer to liquidate non-performing assets, loss severities may tend to be higher than originally anticipated. Additionally, servicers can perform loan modifications, which could potentially impact the value of our securities. The failure of servicers to effectively service the mortgage loans underlying the non-agency MBS in our investment portfolio could negatively impact the value of our investments and our performance. Servicer quality is of prime importance in the default performance of non-agency MBS. If a servicer goes out of business, the transfer of servicing takes time and loans may become delinquent because of confusion or lack of attention. When servicing is transferred, previously advanced principal and interest is often recaptured rapidly by the new servicer, which may have an adverse effect on non-agency MBS credit support. In the case of pools of securitized loans, servicers may be required to advance interest on delinquent loans to the extent the servicer deems those advances recoverable. In the event the servicer does not advance funds, interest may be interrupted, even on more senior securities. Servicers may also advance more than is in fact recoverable once a defaulted loan is disposed, and the loss to the trust may be greater than the outstanding principal balance of that loan (greater than 100% loss severity).

***Our investments may include subordinated tranches of non-agency MBS, which are subordinate in right of payment to more senior securities.***

Our investments may include subordinated tranches of non-agency MBS, which are subordinated classes of securities in a structure collateralized by a pool of mortgage loans and, accordingly, are among the first to bear the loss upon a restructuring or liquidation of the underlying collateral and the last to receive payment of interest and principal. Additionally, estimated fair values of these subordinated interests tend to be more sensitive to changes in economic conditions than more senior securities. As a result, such subordinated interests generally are less actively traded and may not provide holders thereof with liquid investments. When we invest in securities that are illiquid, are unrated, have a higher risk of default or are difficult to value, such securities may be considered speculative, and their capacity to pay principal and interest in accordance with the terms of their issue is not certain.

***Our investment portfolio may be concentrated in terms of credit risk.***

Our investment portfolio may at times be concentrated in certain property types that are subject to higher risk of foreclosure, or secured by properties concentrated in a limited number of geographic locations. To the extent that our portfolio is concentrated in any one region or type of asset, downturns relating generally to such region or type of asset may result in defaults on a number of our assets within a short time period, which may reduce our net income and the value of our shares and accordingly reduce our ability to pay dividends to our stockholders. Our portfolio may contain other concentrations of risk, and we may fail to identify, detect or hedge against those risks, resulting in large or unexpected losses.

***Any credit ratings assigned to our investments will be subject to ongoing evaluations and revisions and we cannot assure you that those ratings will not be downgraded.***

Some of our investments are rated by nationally recognized statistical rating organizations. Any credit ratings on our investments are subject to ongoing evaluation by credit rating agencies, and we cannot assure you that any such ratings will not be changed or withdrawn by a rating agency in the future. If rating agencies assign a lower-than-expected rating or reduce or withdraw, or indicate that they may reduce or withdraw, their ratings of our investments in the future, the value of these investments could significantly decline, which would adversely affect the value of our investment portfolio and could result in losses upon disposition.

***Our mortgage loan investments secured by healthcare properties exposes us to additional risk of loss.***

As of December 31, 2019, we own a mortgage loan investment that is secured by the real property of healthcare facilities and guaranteed by the operator of the facilities. The revenues of the operators are primarily driven by occupancy, private pay rates and Medicare and Medicaid reimbursements. Expenses of these facilities are primarily driven by the costs of labor, food, utilities, taxes, insurance and rent. To the extent that any decrease in revenue or increase in operating expenses result in the facilities not generating enough cash to make payments to us, we would have to rely on the creditworthiness of the guarantor and the value of the collateral. To the extent the value of the property is reduced, we may need to reduce the fair value of our mortgage loan investment and we could incur a realized loss upon the disposition of the investment.

The healthcare industry is highly competitive. The operators of the facilities securing our mortgage loan investments compete on a local and regional basis with other properties and healthcare providers that provide comparable services. We cannot be certain that the operators of our facilities will be able to achieve and maintain occupancy levels and rates that will enable them to meet our borrower's obligations to us.

The operators and healthcare facilities securing our investments may also face litigation and may experience rising liability and insurance costs. Litigation brought by individual patients and advocacy groups against operators of facilities can result in large damage awards of alleged abuses and may result in material increases in the costs incurred by operators, including increases to their costs of liability and medical malpractice insurance.

The operators and healthcare facilities are also subject to varying levels of federal, state, local and industry-regulated licensures, certification and inspection laws, regulations and standards. The failure to comply with any of these laws, regulations, or standards could result in loss of accreditation, denial of reimbursements, imposition of fines, suspension, decertification or exclusion from federal and state healthcare programs, loss of licensure or closure of the facility. The operators and healthcare facilities rely on reimbursement from third-party payors, including Medicare and Medicaid programs, for their revenues. Changes in the reimbursement rates or methods of payment insurance companies and Medicare and Medicaid programs could have a material adverse effect on the operators and healthcare facilities securing our mortgage loan investment.

***Our investments are recorded at fair value based upon assumptions that are inherently subjective, and our results of operations and financial condition could be adversely affected if our determinations regarding the fair value of our investments are materially higher than the values that we ultimately realize upon their disposal.***

We measure the fair value of our investments quarterly, in accordance with guidance set forth in FASB Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements and Disclosures*. Ultimate realization of the value of an asset depends to a great extent on economic and other conditions that are beyond our control. Further, fair value is only an estimate based on good faith judgment of the price at which an investment can be sold because market prices of investments can only be determined by negotiation between a willing buyer and seller. If we were to liquidate a particular asset, the realized value may be more than or less than the amount at which such asset is valued. Accordingly, the value of our securities could be adversely affected by our determinations regarding the fair value of our investments, whether in the applicable period or in the future. Additionally, such valuations may fluctuate over short periods of time.

Our determination of the fair value of our agency MBS is based on price estimates provided by third-party pricing services. In general, pricing services heavily disclaim their valuations. Depending on the complexity and liquidity of a security, valuations of the same security can vary substantially from one pricing service to another. Non-agency MBS trade infrequently and may be considered illiquid. Our determination of the fair value of our non-agency MBS is based on significant unobservable inputs based on various assumptions made by management of the Company. These significant unobservable inputs may include assumptions regarding future interest rates, prepayment rates, discount rates, credit loss rates, and the timing of credit losses. These assumptions are inherently subjective and involve a high degree of management judgment, and our determinations of fair value may differ materially from the values that would have been used if a public market for these securities existed. Therefore, our results of operations for a given period could be adversely affected if our determinations regarding the fair market value of these investments are materially different than the values that we ultimately realize upon their disposal.

***We may change our investment strategy, hedging strategy, asset allocation and operational policies without shareholder consent, which may result in riskier investments and adversely affect the market value of our securities and our ability to make distributions to our shareholders.***

We may change our investment strategy, hedging strategy, asset allocation and operational policies at any time without the consent of our shareholders, which could result in our making investment or hedge decisions that are different from, and possibly riskier than, the investments and hedges described in this Annual Report on Form 10-K. A change in our investment or hedging strategy may increase our exposure to interest rate and real estate market fluctuations. A change in our asset allocation could result in us making investments in securities, assets or business different from those described in this Annual Report on Form 10-K. Our Board of Directors oversees our operational policies, including those with respect to our acquisitions, growth, operations, indebtedness,



capitalization and distributions or approves transactions that deviate from these policies without a vote of, or notice to, our shareholders. Operational policy changes could adversely affect the market value of our securities and our ability to make distributions to our shareholders. Investing in assets other than residential MBS or pursuing business activities other than investing in residential MBS may not be successful and could adversely affect our results of operations and the market value of our securities.

***We may enter into new lines of business, acquire other companies or engage in other strategic initiatives, each of which may result in additional risks and uncertainties in our businesses.***

We may pursue growth through acquisitions of other companies or other strategic initiatives that may require approval by our Board of Directors, stockholders, or both. To the extent we pursue strategic investments or acquisitions, undertake other strategic initiatives or consider new lines of business, we will face numerous risks and uncertainties, including risks associated with:

- the availability of suitable opportunities;
- the level of competition from other companies that may have greater financial resources;
- our ability to value potential acquisition opportunities accurately and negotiate acceptable terms for those opportunities;
- the required investment of capital and other resources;
- the lack of availability of financing and, if available, the terms of any financings;
- the possibility that we have insufficient expertise to engage in such activities profitably or without incurring inappropriate amounts of risk;
- the diversion of management's attention from our core businesses;
- assumption of liabilities in any acquired business;
- the disruption of our ongoing businesses;
- the increasing demands on or issues related to combining or integrating operational and management systems and controls;
- compliance with additional regulatory requirements; and
- costs associated with integrating and overseeing the operations of the new businesses.

Entry into certain lines of business may subject us to new laws and regulations with which we are not familiar, or from which we are currently exempt, and may lead to increased litigation and regulatory risk. In addition, if a new business generates insufficient revenues or if we are unable to efficiently manage our expanded operations, our results of operations will be adversely affected. Our strategic initiatives may include joint ventures, in which case we will be subject to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputational damage relating to, systems, controls and personnel that are not under our control.

***Our Board of Directors does not approve each of our investment, financing and hedging decisions.***

Our Board of Directors oversees our operational policies and periodically reviews our investment guidelines and our investment portfolio. However, our Board of Directors does not review all of our proposed investments. In addition, in conducting periodic reviews, our Board of Directors may rely primarily on information provided to them by our management. Furthermore, transactions entered into or structured for us by our management may be difficult or impossible to unwind by the time they are reviewed by our Board of Directors.

***We operate in a highly-competitive market for investment opportunities, which could make it difficult for us to purchase or originate investments at attractive yields and thus have an adverse effect on our business, results of operations and financial condition.***

We gain access to investment opportunities only to the extent that they become known to us. Gaining access to investment opportunities is highly competitive. Many of our competitors are substantially larger than us and have considerably greater financial, technical and marketing resources, more long-standing relationships, broader product offerings and other advantages. Some of our competitors may have a lower cost of funds and access to funding sources that are not available to us. As a result of this competition, we may not be able to purchase or originate our target investments at attractive yields, which could have an adverse effect on our business, results of operations and financial condition.

## Risks Related to our Business and Structure

### ***Our Rights Plan could inhibit a change in our control.***

We have a Rights Plan designed to protect against a possible limitation on our ability to use our NOLs, NCLs and built-in losses by dissuading investors from aggregating ownership of our Class A common stock and triggering an “ownership change” for purposes of Sections 382 and 383 of the Internal Revenue Code. Under the terms of the Rights Plan, in general, if a person or group acquires or commences a tender or exchange offer for beneficial ownership of 4.9% or more of the outstanding shares of our Class A common stock upon a determination by our Board of Directors (an “Acquiring Person”), all of our other Class A common shareholders will have the right to purchase securities from us at a discount to such securities’ fair market value, thus causing substantial dilution to the Acquiring Person. The Rights Plan may have the effect of inhibiting or impeding a change in control not approved by our Board of Directors and, notwithstanding its purpose, could adversely affect our shareholders’ ability to realize a premium over the then-prevailing market price for our common stock in connection with such a transaction. In addition, because our Board of Directors can prevent the Rights Plan from operating, in the event our Board of Directors approves of an Acquiring Person, the Rights Plan gives our Board of Directors significant discretion over whether a potential acquirer’s efforts to acquire a large interest in us will be successful. Consequently, the Rights Plan could impede transactions that would otherwise benefit our shareholders.

### ***The trading price of our securities may be adversely affected by factors outside of our control.***

Any negative changes in the public’s perception of the prospects for our business or the types of assets in which we invest could depress our stock price regardless of our results. The following factors, among others, could contribute to the volatility of the price of our Class A common stock, Series B Preferred Stock, Series C Preferred Stock or Senior Notes:

- actual or unanticipated variations in our quarterly results;
- changes in our financial estimates by securities analysts;
- conditions or trends affecting companies that make investments similar to ours;
- changes in interest rate environments and the mortgage market that cause our borrowing costs to increase, our reported yields on our MBS portfolio to decrease or that cause the value of our MBS portfolio to decrease;
- changes in the market valuations of the securities in our MBS portfolio and other principal investments;
- negative changes in the public’s perception of the prospects of investment or financial services companies;
- changes in the regulatory environment in which our business operates or changes in federal fiscal or monetary policies;
- dilution resulting from new equity issuances;
- general economic conditions such as a recession, or interest rate or currency rate fluctuations; and
- additions or departures of our key personnel.

Many of these factors are beyond our control.

### ***We may experience significant fluctuations in quarterly operating results.***

Our revenues and operating results may fluctuate from quarter to quarter and from year to year due to a combination of factors, many of which are beyond our control, including the market value of the investments we acquire, the performance of our hedging instruments, prepayment rates and changes in interest rates. As a result, we may fail to meet profitability or dividend expectations, which could negatively affect the market price of our securities and our ability to pay dividends to our shareholders.

***We have not established a minimum dividend payment level and we cannot assure you of our ability to pay dividends in the future.***

We intend to pay regular dividends to our common stockholders in an amount that all or substantially all our taxable income is distributed within the limits prescribed by the Internal Revenue Code. However, we have not established a minimum dividend payment level and the amount of our dividend may fluctuate. Our ability to pay dividends may be adversely affected by the risk factors described herein. All distributions will be made at the discretion of our Board of Directors and will depend on our earnings and financial condition, the requirements for REIT qualification and such other factors as our Board of Directors deems relevant from time to time. We may not be able to make distributions in the future or our Board of Directors may change our dividend policy. In addition, some of our distributions may include a return of capital. To the extent that we decide to pay dividends in excess of our current and accumulated tax earnings and profits, such distributions would generally be considered a return of capital for Federal income tax purposes. A return of capital reduces the cost basis of a stockholder's investment in our common stock to the extent of such basis and is treated as capital gain thereafter.

***Indemnification obligations to certain of our current and former directors and officers may increase the costs to us of legal proceedings involving our company.***

Our charter contains a provision that limits the liability of our directors and officers to us and our shareholders for money damages, except for liability resulting from willful misconduct or a knowing violation of the criminal law or any federal or state securities law. Our charter also requires us to indemnify our directors and officers in connection with any liability incurred by them in connection with any action or proceeding (including any action by us or in our right) to which they are or may be made a party by reason of their service in those or other capacities if the conduct in question was in our best interests and the person was acting on our behalf or performing services for us, unless the person engaged in willful misconduct or a knowing violation of the criminal law. The Virginia Stock Corporation Act requires a Virginia corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he is made a party by reason of his service in that capacity.

In addition, we have entered into indemnification agreements with certain of our current and former directors and officers under which we are generally required to indemnify them against liability incurred by them in connection with any action or proceeding to which they are or may be made a party by reason of their service in those or other capacities, if the conduct in question was in our best interests and the person was conducting themselves in good faith (subject to certain exceptions, including liabilities arising from willful misconduct, a knowing violation of the criminal law or receipt of an improper benefit).

In the future, we may be the subject of indemnification assertions under our charter, Virginia law or these indemnification agreements by our current and former directors and officers who are or may become party to any action or proceeding. We maintain directors' and officers' insurance policies that may limit our exposure and enable us to recover a portion of any amounts paid with respect to such obligations. However, if our coverage under these policies is reduced, denied, eliminated or otherwise not available to us, our potential financial exposure would be increased. The maximum potential amount of future payments we could be required to make under these indemnification obligations could be significant. Amounts paid pursuant to our indemnification obligations could adversely affect our financial results and the amount of cash available for distribution to our shareholders.

***Loss of our exclusion from regulation as an investment company under the 1940 Act would adversely affect us and may reduce the market price of our securities.***

We rely on Section 3(c)(5)(C) of the 1940 Act for our exclusion from the registration requirements of the 1940 Act. This provision requires that 55% of our assets, on an unconsolidated basis, consist of qualifying assets, such as agency whole pool certificates, and 80% of our assets, on an unconsolidated basis, consist of qualifying assets or real estate-related assets. We will need to ensure not only that we qualify for an exclusion or exemption from regulation under the 1940 Act, but also that each of our subsidiaries qualifies for such an exclusion or exemption. We intend to maintain our exclusion by monitoring the value of our interests in our subsidiaries. We may not be successful in this regard.

If we fail to maintain our exclusion and another exclusion or exemption is not available, we may be required to register as an investment company, or we may be required to acquire or dispose of assets in order to meet our exemption. Any such asset acquisitions or dispositions may include assets that we would not acquire or dispose of in the ordinary course of business, may be at unfavorable prices and result in a decline in the price of our securities. If we are required to register as an investment company under the 1940 Act, we would become subject to substantial regulation with respect to our capital structure (including our ability to use leverage), management, operations, transactions with affiliated persons (as defined in the 1940 Act), and portfolio composition, including restrictions with respect to diversification and industry concentration and other matters. Accordingly, registration under the 1940 Act could limit our ability to follow our current investment and financing strategies and result in a decline in the price of our securities.

***Failure to obtain and maintain an exemption from being regulated as a commodity pool operator could subject us to additional regulation and compliance requirements and may result in fines and other penalties which could materially adversely affect our business, financial condition and results of operations.***

The Dodd-Frank Act established a comprehensive new regulatory framework for derivative contracts commonly referred to as “swaps.” As a result, any investment fund that trades in swaps or other derivatives may be considered a “commodity pool,” which would cause its operators (in some cases the fund’s directors) to be regulated as “commodity pool operators,” or CPOs. Under rules adopted by the U.S. Commodity Futures Trading Commission (“CFTC”) for which the compliance date generally was December 31, 2012 as to those funds that become commodity pools solely because of their use of swaps, CPOs must by then have filed an application for registration with the National Futures Association (“NFA”) and have commenced and sustained good faith efforts to comply with the Commodity Exchange Act and CFTC’s regulations with respect to capital raising, disclosure, reporting, recordkeeping and other business conduct applicable for their activities as CPOs as if the CPOs were in fact registered in such capacity (which also requires compliance with applicable NFA rules). However, the CFTC’s Division of Swap Dealer and Intermediary Oversight issued a no-action letter saying, although it believes that mortgage REITs are properly considered commodity pools, it would not recommend that the CFTC take enforcement action against the operator of a mortgage REIT who does not register as a CPO if, among other things, the mortgage REIT limits the initial margin and premiums required to establish its swaps, futures and other commodity interest positions to not more than five percent (5%) of its total assets, the mortgage REIT limits the net income derived annually from those commodity interest positions which are not qualifying hedging transactions to less than five percent (5%) of its gross income, and interests in the mortgage REIT are not marketed to the public as or in a commodity pool or otherwise as or in a vehicle for trading in the commodity futures, commodity options or swaps markets.

We use hedging instruments in conjunction with our investment portfolio and related borrowings to reduce or mitigate risks associated with changes in interest rates, yield curve shapes and market volatility. These hedging instruments may include interest rate swaps, interest rate swap futures, Eurodollar futures, U.S. Treasury note futures and options on futures. We do not currently engage in any speculative derivatives activities or other non-hedging transactions using swaps, futures or options on futures. We do not use these instruments for the purpose of trading in commodity interests, and we do not consider our company or its operations to be a commodity pool as to which CPO registration or compliance is required. We have claimed the relief afforded by the above-described no-action letter. Consequently, we will be restricted to operating within the parameters discussed in the no-action letter and will not enter into hedging transactions covered by the no-action letter if they would cause us to exceed the limits set forth in the no-action letter. However, there can be no assurance that the CFTC will agree that we are entitled to the no-action letter relief claimed.

The CFTC has substantial enforcement power with respect to violations of the laws over which it has jurisdiction, including their anti-fraud and anti-manipulation provisions. For example, the CFTC may suspend or revoke the registration of or the no-action relief afforded to a person who fails to comply with commodities laws and regulations, prohibit such a person from trading or doing business with registered entities, impose civil money penalties, require restitution and seek fines or imprisonment for criminal violations. In the event that the CFTC staff does not provide the no action letter relief we requested or if the CFTC otherwise determines that CPO registration and compliance is required of us, we may be obligated to furnish additional disclosures and reports, among other things. Further, a private right of action exists against those who violate the laws over which the CFTC has jurisdiction or who willfully aid, abet, counsel, induce or procure a violation of those laws. In the event that we fail to comply with statutory requirements relating to derivatives or with the CFTC’s rules thereunder, including the mortgage REIT no-action letter described above, we may be subject to significant fines, penalties and other civil or governmental actions or proceedings, any of which could have a materially adverse effect on our business, financial condition and results of operations.

***We face competition for personnel, which could adversely affect our business and in turn negatively affect the market price of our securities and our ability to pay dividends to our shareholders.***

We are dependent on the highly-skilled, and often highly-specialized, individuals we employ. Retention of specialists to manage our portfolio is particularly important to our prospects. Competition for the recruiting and retention of employees may increase elements of our compensation costs. We may not be able to recruit and hire new employees with our desired qualifications in a timely manner. Our incentives may be insufficient to recruit and retain our employees. Increased compensation costs could adversely affect the amount of cash available for distribution to shareholders and our failure to recruit and retain qualified employees could materially and adversely affect our future operating results.

***We are dependent upon a small number of key senior professionals and the loss of any of these individuals could adversely affect our financial results which may, in turn, negatively affect the market price of our securities and our ability to pay dividends to our shareholders.***

We currently do not have employment agreements with any of our senior officers and other key professionals. We cannot guarantee that we will continue to have access to members of our senior management team or other key professionals. The loss of any members of our senior management and other key professionals could materially and adversely affect our operating results.

***We are highly dependent upon communications and information systems operated by third parties, and systems failures could significantly disrupt our business, which may, in turn, negatively affect the market price of our securities and our ability to pay dividends to our shareholders.***

Our business is highly dependent upon communications and information systems that allow us to monitor, value, buy, sell, finance and hedge our investments. Many of these systems are primarily operated by third parties and, as a result, we have limited ability to ensure their continued operation. Furthermore, in the event of systems failure or interruption, we will have limited ability to affect the timing and success of systems restoration. Any failure or interruption of our systems or third-party trading or information systems could cause delays or other problems in our securities trading activities, which could have a material adverse effect on our operating results and negatively affect the market price of our securities and our ability to pay dividends to our shareholders.

***We face risks relating to cybersecurity attacks that could cause loss of confidential information and other business disruptions.***

We rely extensively on computer systems to process transactions and manage our business, and our business is at risk from, and may be impacted by, cybersecurity attacks. These could include attempts to gain unauthorized access to our data and computer systems. Attacks can be both individual and/or highly organized attempts by sophisticated hacking organizations. We employ a number of measures to prevent, detect and mitigate these threats, which include password encryption, frequent password change events, firewall detection systems, anti-virus software and frequent backups; however, there can be no guarantee that such efforts will be successful in preventing a cybersecurity attack. A cybersecurity attack could compromise the confidential information of our employees, tenants and vendors. A successful attack could disrupt and otherwise adversely affect our business operations and financial prospects, damage our reputation and involve significant legal and/or financial liabilities and penalties, including through lawsuits by third-parties.

***If we issue additional debt securities or other equity securities that rank senior to our common stock, our operations may be restricted and we will be exposed to additional risk and the market price of our securities could be adversely affected.***

If we decide to issue additional debt securities in the future, it is likely that such securities will be governed by an indenture or other instrument containing covenants restricting our operating flexibility and inhibit our ability to make required distributions. Additionally, any convertible or exchangeable or other securities registered pursuant to our shelf registration statement that we issue in the future may have rights, preferences and privileges more favorable than those of our Class A common stock. Also, additional shares of preferred stock, if issued, could have a preference on liquidating distributions or a preference on dividend payments that could limit our ability to make a dividend distribution to the holders of our Class A common stock. We, and indirectly our shareholders, will bear the cost of issuing and servicing such securities. Holders of debt securities may be granted specific rights, including but not limited to, the right to hold a perfected security interest in certain of our assets, the right to accelerate payments due under the indenture, rights to restrict dividend payments, and rights to approve the sale of assets. Such additional restrictive covenants, operating restrictions and preferential dividends could have a material adverse effect on our operating results and negatively affect the market price of our securities and our ability to pay distributions to our shareholders.

***Future sales of shares of our common stock may depress the price of our shares.***

We cannot predict the effect, if any, of future sales of our common stock or the availability of shares for future sales on the market price of our common stock. Any sales of a substantial number of our shares in the public market, or the perception that sales might occur, may cause the market price of our shares to decline.

#### **Risks related to taxation**

***Our failure to qualify as a REIT would result in higher taxes and reduced cash available for distribution to our stockholders.***

We intend to elect to be taxed as a REIT for U.S. federal income tax purposes upon filing our tax return for our taxable year ended December 31, 2019, and we intend to operate so that we will qualify as a REIT. However, the U.S. federal income tax laws governing REITs are complex, and interpretations of the U.S. federal income tax laws governing qualification as a REIT are limited. Qualifying as a REIT requires us to meet various tests regarding the nature of our assets and our income, the ownership of our outstanding stock, and the amount of our distributions on an ongoing basis.

Our ability to satisfy the asset tests depends upon the characterization and fair market values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Our compliance with the REIT income and quarterly asset requirements also depends upon our ability to successfully manage the composition of our income and assets on an ongoing basis. Although we intend to operate so that we will qualify as a REIT, given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, and the possibility of future changes in our circumstances, no assurance can be given that we will so qualify for any particular year.

If we fail to qualify as a REIT in any calendar year, we would be required to pay U.S. federal income tax on our taxable income at regular corporate rates, and dividends paid to our stockholders would not be deductible by us in computing our taxable income. Further, if we fail to qualify as a REIT, we might need to borrow money or sell assets in order to pay any resulting tax. Our payment of income tax would decrease the amount of our income available for distribution to our stockholders. Furthermore, if we fail to qualify or maintain our qualification as a REIT, we no longer would be required to distribute substantially all of our REIT taxable income to our stockholders. Unless our failure to qualify as a REIT was subject to relief under U.S. federal tax laws, we could not re-elect to qualify as a REIT for four taxable years following the year in which we failed to qualify.

***Complying with the REIT requirements can be difficult and may cause us to forgo otherwise attractive opportunities.***

To qualify as a REIT for U.S. federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our shares. We may be required to make distributions to our stockholders at disadvantageous times or when we do not have funds readily available for distribution, and may be unable to pursue otherwise attractive investments in order to satisfy the source-of-income or asset-diversification requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

***The REIT distribution requirements could adversely affect our ability to execute our business strategies.***

We generally must distribute annually at least 90% of our REIT taxable income, excluding any net capital gain. We may use our net operating loss carryforward to reduce our REIT distribution requirement. To the extent that we satisfy the 90% distribution requirement, but distribute less than 100% of our taxable income, we will be subject to U.S. federal corporate income tax, and may be subject to state and local income tax, on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under U.S. federal income tax laws. We intend to make distributions to our stockholders to comply with the requirements of the Internal Revenue Code and to avoid paying corporate income tax. However, differences in timing between the recognition of taxable income and the actual receipt of cash could require us to sell assets or borrow funds on a short-term or long-term basis to meet the distribution requirements of the Internal Revenue Code.

From time to time, we may be required to recognize taxable income from our assets in advance of our receipt of cash flow on or proceeds from disposition of such assets. For example, if we purchase MBS at a discount, we generally are required to accrete the discount into taxable income prior to receiving the cash proceeds of the accreted discount at maturity. In addition, we may be required under the terms of indebtedness that we incur to use cash received from interest payments to make principal payments on that indebtedness, with the effect of recognizing income but not having a corresponding amount of cash available for distribution to our stockholders. Additionally, if we incur capital losses in excess of capital gains, such net capital losses are not allowed to reduce our taxable income for purposes of determining our distribution requirement. They may be carried forward for a period of up to five years and applied against future capital gains subject to the limitation of our ability to generate sufficient capital gains, which cannot be assured.

If we do not have other funds available, we could be required to (i) sell assets in adverse market conditions, (ii) borrow on unfavorable terms, (iii) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt, or (iv) distribute taxable dividends that are payable in cash or shares of our common stock at the election of each stockholder, to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the REIT distribution requirement and to avoid the corporate income tax and 4% excess tax in a particular year. Thus, compliance with the REIT requirements may hinder our ability to grow, which could adversely affect the value of our common stock.

***Net capital losses do not reduce our REIT distribution requirements, which may result in distribution requirements in excess of economic earnings.***

As a REIT, we generally must distribute annually at least 90% of our REIT taxable income, excluding any net capital gain. If we incur capital losses in excess of capital gains, such net capital losses are not allowed to reduce our taxable income for purposes of determining our distribution requirement. They may be carried forward for a period of up to five years and applied against future capital gains subject to the limitation of our ability to generate sufficient capital gains, which cannot be assured. Accordingly, if we generate a net capital loss during the year, the minimum amount of our REIT taxable income that we are required to distribute could exceed our net earnings for the year resulting in a reduction of our shareholders' equity capital.

The difference in character between our gains and losses on our agency MBS and our interest rate hedging transactions could make this situation more likely to occur. The gains and losses on the sale of our agency MBS generally are characterized as capital for U.S. federal income tax purposes. However, our income and losses from interest rate hedging transactions that are designated as hedges generally are characterized as ordinary for U.S. federal income tax purposes. In general, to the extent that interest rates rise, the value of our interest rate hedging instruments increase in value while the value of our fixed-rate agency MBS decrease in value.

As a result, we could realize annual ordinary income from our interest rate hedges that would not be offset, for purposes of the REIT distribution requirements, by annual net capital losses on our fixed-rate agency MBS. This could lead to a required distribution to our shareholders in excess of our net earnings, which could result in a reduction in our shareholders' equity.

***Even if we qualify as a REIT, we may face tax liabilities that reduce our cash flow.***

Even if we qualify for taxation as a REIT, we may be subject to certain U.S. federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from certain activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes, such as mortgage recording taxes, and other taxes. In addition, in order to meet the REIT qualification requirements, or to avoid the imposition of a 100% tax that applies to certain gains derived by a REIT from dealer property or inventory, we may hold certain assets through, and derive a significant portion of our taxable income and gains in, TRSs. Such subsidiaries are subject to corporate level income tax at regular rates. Any of these taxes would decrease cash available for distribution to our stockholders.

***Liquidation of assets may jeopardize our REIT qualification.***

To qualify as a REIT, we must comply with requirements regarding our assets and our sources of income. If we are compelled to liquidate our investments to repay obligations to our lenders, we may be unable to comply with these requirements, ultimately jeopardizing our qualification as a REIT, or we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as dealer property or inventory.

***The failure of assets subject to repurchase agreements to be treated as owned by us for U.S. federal income tax purposes could adversely affect our ability to qualify as a REIT.***

We have entered and may in the future enter into repurchase agreements that are structured as sale and repurchase agreements pursuant to which we nominally sell certain of our assets to a counterparty and simultaneously enter into an agreement to repurchase these assets at a later date in exchange for a purchase price. Economically, these agreements are financings that are secured by the assets sold pursuant thereto. We believe that we are treated for REIT asset and income test purposes as the owner of the assets that are the subject of any such sale and repurchase agreement notwithstanding that such agreements may transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could assert that we did not own the assets during the term of the sale and repurchase agreement, in which case we could fail to qualify as a REIT.

***Complying with the REIT requirements may limit our ability to hedge effectively.***

The REIT provisions of the Internal Revenue Code could substantially limit our ability to hedge our assets and operations. Under current law, any income that we generate from transactions intended to hedge our interest rate or currency risks will be excluded from gross income for purposes of the REIT 75% and 95% gross income tests if (i) the instrument hedges risk of interest rate or currency fluctuations on indebtedness incurred or to be incurred to carry or acquire real estate assets, (ii) the instrument hedges risk of currency fluctuations with respect to any item of income or gain that would be qualifying income under the REIT 75% or 95% gross income tests, or (iii) the instrument was entered into to "offset" certain instruments described in clauses (i) or (ii) of this sentence and certain other requirements are satisfied and such instrument is properly identified under applicable Treasury Regulations. Income from hedging transactions that do not meet these requirements is likely to constitute nonqualifying income for purposes of both the REIT 75% and 95% gross income tests. As a result of these rules, we may have to limit our use of hedging techniques that might otherwise be advantageous to us or implement those hedges through our TRSs. This could increase the cost of our hedging activities because our TRSs would be subject to tax on gains or expose us to greater risks associated with interest rate fluctuations or other changes than we would otherwise want to bear.

***Uncertainty exists with respect to the treatment of our TBAs for purposes of the REIT asset and income tests.***

We purchase and sell agency MBS through TBAs and recognize income or gains from the disposition of those TBAs, through dollar roll transactions or otherwise, and may continue to do so in the future. While there is no direct authority with respect to the qualification of TBAs as real estate assets or U.S. Government securities for purposes of the REIT 75% asset test or the qualification of income or gains from dispositions of TBAs as gains from the sale of real property or other qualifying income for purposes of the REIT 75% gross income test, we treat our TBAs under which we contract to purchase a TBA agency MBS ("long TBAs") as qualifying assets for purposes of the REIT 75% asset test, and we treat income and gains from our long TBAs as qualifying income for purposes of the REIT 75% gross income test, based on an opinion of counsel substantially to the effect that (i) for purposes of the REIT asset tests, our ownership of a long TBA should be treated as ownership of real estate assets, and (ii) for purposes of the REIT 75% gross income test, any gain recognized by us in connection with the settlement of our long TBAs should be treated as gain from the sale or disposition of an interest in mortgages on real property. Opinions of counsel are not binding on the IRS, and no assurance can be given that the IRS will not successfully challenge the conclusions set forth in such opinions. In addition, it must be

emphasized that the opinion of counsel is based on various assumptions relating to our TBAs and is conditioned upon fact-based representations and covenants made by our management regarding our TBAs. No assurance can be given that the IRS would not assert that such assets or income are not qualifying assets or income. If the IRS were to successfully challenge the opinion of counsel, we could be subject to a penalty tax or we could fail to remain qualified as a REIT if a sufficient portion of our assets consists of TBAs or a sufficient portion of our income consists of income or gains from the disposition of TBAs.

***The tax on prohibited transactions will limit our ability to engage in transactions, including certain methods of securitizing MBS, that would be treated as sales for U.S. federal income tax purposes.***

A REIT's net income from prohibited transactions is subject to a 100% tax with no offset for losses. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, but including mortgage loans, held primarily for sale to customers in the ordinary course of business. We might be subject to this tax if we dispose of or securitize MBS in a manner that was treated as dealer activity for U.S. federal income tax purposes. Therefore, in order to avoid the prohibited transactions tax, we may choose not to engage in certain sales or securitization structures or to implement such transactions through a TRS, even though the transactions might otherwise be beneficial to us.

***Distributions to tax-exempt investors, or gains on sale of our common stock by tax-exempt investors, may be classified as unrelated business taxable income.***

Neither ordinary nor capital gain distributions with respect to our common stock nor gain from the sale of our common stock are anticipated to constitute unrelated business taxable income to a tax-exempt investor. However, there are certain exceptions to this rule. For example, if (i) all or a portion of our assets are subject to the rules relating to "taxable mortgage pools" or we hold residual interests in a real estate mortgage investment conduit (or "REMIC"); (ii) we are a "pension held REIT;" (iii) a tax-exempt stockholder has incurred debt to purchase or hold our common stock; or (iv) a tax-exempt stockholder is classified as a social club, voluntary employee benefit association, supplemental unemployment benefit trust or a qualified group legal services plan, then a portion of our distributions to tax-exempt stockholders and, in the case of stockholders described in clauses (iii) and (iv), gains realized on the sale of our common stock by tax-exempt stockholders may be subject to U.S. federal income tax as unrelated business taxable income under the Internal Revenue Code.

***Certain financing activities may subject us to U.S. federal income tax and could have negative tax consequences for our shareholders.***

We currently do not intend to enter into any transactions that could result in our, or a portion of our assets, being treated as a taxable mortgage pool for U.S. federal income tax purposes. If we enter into such a transaction in the future we will be taxable at the highest corporate income tax rate on a portion of the income arising from a taxable mortgage pool, referred to as "excess inclusion income," that is allocable to the percentage of our shares held in record name by disqualified organizations (generally tax-exempt entities that are exempt from the tax on unrelated business taxable income, such as state pension plans and charitable remainder trusts and government entities).

If we were to realize excess inclusion income, IRS guidance indicates that the excess inclusion income would be allocated among our shareholders in proportion to our dividends paid. Excess inclusion income cannot be offset by losses of our shareholders. If the shareholder is a tax-exempt entity and not a disqualified organization, then this income would be fully taxable as unrelated business taxable income under Section 512 of the Internal Revenue Code. If the shareholder is a foreign person, it would be subject to U.S. federal income tax at the maximum tax rate and withholding will be required on this income without reduction or exemption pursuant to any otherwise applicable income tax treaty.

***The stock ownership limits applicable to us that are imposed by the Internal Revenue Code for REITs may restrict our business combination opportunities.***

In order for us to maintain our qualification as a REIT under the Internal Revenue Code, not more than 50% in value of our outstanding shares may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) at any time during the last half of each taxable year after our first taxable year.

In addition to the limitations on ownership under our Rights Plan, our Amended and Restated Articles of Incorporation contain customary "ownership limitation" provisions that are designed to protect our ability to qualify as a REIT. Pursuant to our Amended and Restated Articles of Incorporation, no person may own, or deemed to own by virtue of the attribution provisions of the Internal Revenue Code, in excess of (i) 9.9% of the number of the outstanding shares of our common stock, (ii) 9.9% in number of the outstanding shares of any class or series of our preferred stock, and (iii) 9.9% of the aggregate value of the outstanding shares of our equity stock. Our Board of Directors may, in its sole discretion, with respect to any person, (i) grant an exemption from this 9.9% stock ownership limitation, and (ii) establish different ownership limitations for any such person.



Such stock ownership limits might delay or prevent a transaction or a change in our control that might involve a premium price for our common stock or otherwise be in the best interests of our stockholders.

***A REIT cannot invest more than 20% of its total assets in the stock or securities of one or more TRS.***

A TRS is a corporation, other than a REIT or a qualified REIT subsidiary, in which a REIT owns the stock and with which the REIT jointly elects TRS status. The term also includes a corporate subsidiary in which the TRS owns more than a 35% interest.

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may earn income that would not be qualifying income if it was earned directly by the parent REIT. Overall, at the close of any calendar quarter, no more than 20% of the value of a REIT's assets may consist of stock or securities of one or more TRSs.

The stock and securities of our TRSs are expected to represent less than 20% of the value of our total assets. Furthermore, we intend to monitor the value of our investments in the stock and securities of our TRSs to ensure compliance with the above-described limitation. We cannot assure you, however, that we will always be able to comply with the limitation so as to maintain REIT status.

***TRSs are subject to tax at the regular corporate rates, are not required to distribute dividends, and the amount of dividends a TRS can pay to its parent REIT may be limited by REIT gross income tests.***

A TRS must pay income tax at regular corporate rates on any income that it earns. Our TRSs will pay corporate income tax on their taxable income, and their after-tax net income will be available for distribution to us. In certain circumstances, the ability of our TRSs to deduct interest expense for federal income tax may be limited. Such income, however, is not required to be distributed.

Moreover, the annual gross income tests that must be satisfied to ensure REIT qualification may limit the amount of dividends that we can receive from our TRSs and still maintain our REIT status. Generally, not more than 25% of our gross income can be derived from non-real estate related sources, such as dividends from a TRS. If, for any taxable year, the dividends we received from our TRSs, when added to our other items of non-real estate related income, represented more than 25% of our total gross income for the year, we could be denied REIT status, unless we were able to demonstrate, among other things, that our failure of the gross income test was due to reasonable cause and not willful neglect.

The limitations imposed by the REIT gross income tests may impede our ability to distribute assets from our TRSs to us in the form of dividends. Certain asset transfers may, therefore, have to be structured as purchase and sale transactions upon which our TRSs recognize a taxable gain.

***If interest accrues on indebtedness owed by a TRS to its parent REIT at a rate in excess of a commercially reasonable rate, or if transactions between a REIT and a TRS are entered into on other than arm's-length terms, the REIT may be subject to a penalty tax.***

If interest accrues on an indebtedness owed by a TRS to its parent REIT at a rate in excess of a commercially reasonable rate, the REIT is subject to tax at a rate of 100% on the excess of (i) interest payments made by a TRS to its parent REIT over (ii) the amount of interest that would have been payable had interest accrued on the indebtedness at a commercially reasonable rate. A tax at a rate of 100% is also imposed on any transaction between a TRS and its parent REIT to the extent the transaction gives rise to deductions to the TRS that are in excess of the deductions that would have been allowable had the transaction been entered into on arm's-length terms. While we will scrutinize all of our transactions with our TRSs in an effort to ensure that we do not become subject to these taxes, there is no assurance that we will be successful. We may not be able to avoid application of these taxes.

***There are uncertainties relating to the estimate of our accumulated earnings and profits attributable to our non-REIT years.***

To qualify as a REIT, we were required to distribute to our shareholders prior to the end of the taxable year ended December 31, 2019 all of our accumulated earnings and profits attributable to non-REIT years. Based on an earnings and profits study we obtained from nationally recognized accountants, we do not believe that we had any accumulated earnings and profits attributable to non-REIT years. While we believe that we satisfied the requirements relating to the distribution of our non-REIT earnings and profits, the determination of the amount of accumulated earnings and profits attributable to non-REIT years is a complex factual and legal determination. There are substantial uncertainties relating to the computation of our accumulated earnings and profits attributable to non-REIT years, including our interpretation of the applicable law differently from the IRS. In addition, the IRS could, in auditing tax years through 2018, successfully assert that our taxable income should be increased, which could increase our non-REIT earnings and profits. Although there are procedures available to cure a failure to distribute all of our non-REIT earnings and profits, we cannot now determine whether we will be able to take advantage of them or the economic impact to us of doing so. If it is determined that we had undistributed non-REIT earnings and profits as of the end of any taxable year in which we elect to qualify as a REIT, and we are unable to cure the failure to distribute such earnings and profits, then we would fail to qualify as a REIT under the Internal Revenue Code.

***New legislation or administrative or judicial action, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to qualify as a REIT.***

The present U.S. federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect the U.S. federal income tax treatment of an investment in our common stock. The U.S. federal tax rules that affect REITs are under review constantly by persons involved in the legislative process, the IRS and the U.S. Treasury Department, which results in statutory changes as well as frequent revisions to Treasury regulations and interpretations. Revisions in U.S. federal tax laws and interpretations thereof could cause us to change our investments and commitments, which could also affect the tax considerations of an investment in our stock. We cannot predict the long-term effect of any recent law changes or any future law changes on REITs and their stockholders. Any such changes could have an adverse effect on the market value of our securities or our ability to make dividends to our shareholders.

***Our ability to deduct our interest expense could be limited.***

The Tax Cuts and Jobs Act imposes limitations on the deductibility of business interest expense. The business interest expense limitation applies to net interest expense (i.e., interest expense in excess of interest income). Any disallowed interest expense may generally be carried forward to future taxable years, subject to additional requirements and limitations. Because our activities generate substantial amounts of interest income, it is anticipated that the deductibility of our interest expense generally will not be impacted by the new limitation. However, there can be no complete assurance that our activities will not produce net interest expense, the deductibility of which is limited by the new rules.

***We may not be able to generate future taxable income to fully utilize NOL and NCL carryforwards.***

As of December 31, 2019, we had an NOL carryforward of \$14.6 million that expires in 2028 and an NCL carryforward of \$283.3 million that begins to expire in 2020. We can utilize our NOL carryforward to reduce our REIT distribution requirement. In addition, we can utilize our NCL carryforward to reduce our net capital gain income that would be subject to income taxes to the extent it is not distributed to our shareholders. Utilizing our NOL and NCL carryforwards may allow us to reduce our required distributions to shareholders or income tax liability which would allow us to retain future taxable income as capital. However, we may not generate sufficient taxable income of the appropriate tax character to fully utilize these carryforwards prior to their expiration. To the extent that our NOL or NCL carryforwards expire unutilized, we may not fully realize the benefit of these tax attributes which could lead to higher annual distribution requirements or tax liabilities.

***Our ability to use our tax benefits could be substantially limited if we experience an “ownership change.”***

Our NOL and NCL carryforwards and certain recognized built-in losses may be limited by Sections 382 and 383 of the Internal Revenue Code if we experience an “ownership change.” In general, an “ownership change” occurs if 5% shareholders increase their collective ownership of the aggregate amount of the outstanding shares of our company by more than 50 percentage points looking back over the relevant testing period. If an ownership change occurs, our ability to use our NOLs, NCLs and certain recognized built-in losses to reduce our REIT distribution requirement or taxable income in a future year would be limited to a Section 382 limitation equal to the fair market value of our stock immediately prior to the ownership change multiplied by the long-term tax-exempt interest rate in effect for the month of the ownership change. The long-term tax-exempt rate for January 2020 is 2.07%. In the event of an ownership change, NOLs and NCLs that exceed the Section 382 limitation in any year will continue to be allowed as carryforwards for the remainder of the carryforward period and such losses can be used to offset taxable income for years within the carryforward period subject to the Section 382 limitation in each year. However, if the carryforward period for any NOL or NCL were to expire before that loss had been fully utilized, the unused portion of that loss would be lost. Our use of new NOLs or NCLs arising after the date of an ownership change would not be affected by the Section 382 limitation (unless there were another ownership change after those new losses arose).

We have a Rights Plan designed to protect against the occurrence of an ownership change. The Rights Plan is intended to act as a deterrent to any person or group acquiring 4.9% or more of our outstanding Class A common stock without the approval of our Board of Directors. See “Risks Related to our Business and Structure - Our Rights Plan could inhibit a change in our control” for information on our Rights Plan. The Rights Plan, however, does not protect against all transactions that could cause an ownership change, such as public issuances and repurchases of shares of Class A common stock. The Rights Plan may not be successful in preventing an ownership change within the meaning of Sections 382 and 383 of the Internal Revenue Code, and we may lose all or most of the anticipated tax benefits associated with our prior losses.

Based on our knowledge of our stock ownership, we do not believe that an ownership change has occurred since our losses were generated. Accordingly, we believe that at the current time there is no annual limitation imposed on our use of our NOLs and NCLs to reduce future taxable income. The determination of whether an ownership change has occurred or will occur is complicated and depends on changes in percentage stock ownership among shareholders. Other than the Rights Plan, there are currently no restrictions on the transfer of our stock that would discourage or prevent transactions that could cause an ownership change, although we may

adopt such restrictions in the future. As discussed above, the Rights Plan is intended to discourage transactions that could cause an ownership change. In addition, we have not obtained, and currently do not plan to obtain, a ruling from the Internal Revenue Service, regarding our conclusion as to whether our losses are subject to any such limitations. Furthermore, we may decide in the future that it is necessary or in our interest to take certain actions that could result in an ownership change. Therefore, no assurance can be provided as to whether an ownership change has occurred or will occur in the future.

***Preserving the ability to use our NOLs and NCLs may cause us to forgo otherwise attractive opportunities.***

Limitations imposed by Sections 382 and 383 of the Internal Revenue Code may discourage us from, among other things, repurchasing our stock or issuing additional stock to raise capital or to acquire businesses or assets. Accordingly, our desire to preserve our NOLs and NCLs may cause us to forgo otherwise attractive opportunities.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Our executive and administrative office is located at 6862 Elm Street, Suite 320, McLean, Virginia 22101. We lease our office space.

**ITEM 3. LEGAL PROCEEDINGS**

We are from time to time involved in civil lawsuits, legal proceedings and arbitration matters that we consider to be in the ordinary course of our business. There can be no assurance that these matters individually or in the aggregate will not have a material adverse effect on our financial condition or results of operations in a future period. We are also subject to the risk of litigation, including litigation that may be without merit. As we intend to actively defend such litigation, significant legal expenses could be incurred. An adverse resolution of any future litigation against us could materially affect our financial condition, results of operations and liquidity. Furthermore, we operate in highly-regulated markets that currently are under intense regulatory scrutiny, and we have received, and we expect in the future that we may receive, inquiries and requests for documents and information from various federal, state and foreign regulators. In addition, one or more of our subsidiaries have received requests to repurchase loans from various parties in connection with the former securitization business conducted by a subsidiary. We believe that the continued scrutiny of MBS, structured finance, and derivative market participants increases the risk of additional inquiries and requests from regulatory or enforcement agencies and other parties. We cannot provide any assurance that these inquiries and requests will not result in further investigation of or the initiation of a proceeding against us or that, if any such investigation or proceeding were to arise, it would not materially adversely affect our Company.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our Class A common stock is listed on the NYSE under the symbol "AI." As of January 31, 2020, there were approximately 107 record holders of our Class A common stock. However, most of the shares of our Class A common stock are held by brokers and other institutions on behalf of shareholders.

Commencing with our taxable year ending December 31, 2019, we intend to elect to be taxed as a REIT under the Internal Revenue Code. As a REIT, we are required to distribute annually 90% of our REIT taxable income (subject to certain adjustments). So long as we continue to qualify as a REIT, we will generally not be subject to U.S. federal or state corporate income taxes on our taxable income that we distribute to our shareholders on a timely basis. At present, it is our intention to distribute 100% of our taxable income, although we will not be required to do so. We intend to make distributions of our taxable income within the time limits prescribed by the Internal Revenue Code, which may extend into the subsequent taxable year. We have not established a minimum dividend payment level and our ability to pay dividends may be adversely affected for the reasons described in "Item 1A Risk Factors." All distributions to shareholders will be made at the discretion of our Board of Directors and will depend upon our earnings, financial condition, maintenance of our REIT status and other factors as our Board of Directors may deem relevant from time to time.

In addition, holders of our Series B Preferred Stock and Series C Preferred Stock are entitled to receive cumulative cash dividends at a specified rate of each of their liquidation preference before holders of our common stock are entitled to receive any dividends.

**Securities Authorized for Issuance Under Equity Compensation Plans**

Information about securities authorized for issuance under our equity compensation plans is incorporated by reference from our Definitive Proxy Statement for the 2020 Annual Meeting of Shareholders.

**Purchases of Equity Securities by the Issuer**

Our Board of Directors authorized a share repurchase program pursuant to which we may repurchase up to 2,000,000 shares of Class A common stock (the "Repurchase Program"). Repurchases under the Repurchase Program may be made from time to time on the open market and in private transactions at management's discretion in accordance with applicable federal securities laws. The timing of repurchases and the exact number of shares of Class A common stock to be repurchased will depend upon market conditions and other factors. The Repurchase Program is funded using our cash on hand and cash generated from operations. The Repurchase Program has no expiration date and may be suspended or terminated at any time without prior notice. There were no shares repurchased by us under the Repurchase Program during the year ended December 31, 2019. As of December 31, 2019, there remain available for repurchase 1,951,305 shares of Class A common stock under the Repurchase Program.

**ITEM 6. SELECTED FINANCIAL DATA**
**SELECTED CONSOLIDATED FINANCIAL INFORMATION**
**(Dollars in thousands, except per share amounts)**

	Year Ended December 31,				
	2019	2018	2017	2016	2015
<b>Consolidated Statement of Comprehensive Income Data (audited)</b>					
Interest income	\$ 123,478	\$ 130,953	\$ 121,248	\$ 105,336	\$ 121,263
Interest expense	97,250	84,825	51,514	29,222	18,889
Net interest income	26,228	46,128	69,734	76,114	102,374
Investment advisory fee income	332	—	—	—	—
Investment gain (loss), net	2,197	(123,822)	5,874	(69,318)	(118,429)
General and administrative expenses	15,015	13,370	18,570	20,756	14,787
Income (loss) before income taxes	13,742	(91,064)	57,038	(13,960)	(30,842)
Income tax provision	—	733	39,603	27,387	38,561
Net income (loss)	13,742	(91,797)	17,435	(41,347)	(69,403)
Dividend on preferred stock	(2,600)	(590)	(251)	—	—
Net income (loss) available (attributable) to common stock	11,142	(92,387)	17,184	(41,347)	(69,403)
Other comprehensive loss, net of taxes	—	—	—	(12,371)	(23,501)
Comprehensive income (loss)	\$ 13,742	\$ (91,797)	\$ 17,435	\$ (53,718)	\$ (92,904)
Basic earnings (loss) per common share	\$ 0.31	\$ (3.18)	\$ 0.67	\$ (1.79)	\$ (3.02)
Diluted earnings (loss) per common share	\$ 0.31	\$ (3.18)	\$ 0.66	\$ (1.79)	\$ (3.02)

	December 31,				
	2019	2018	2017	2016	2015
<b>Consolidated Balance Sheet Data (audited)</b>					
Agency MBS, at fair value	\$ 3,768,496	\$ 3,982,106	\$ 4,054,424	\$ 3,911,375	\$ 3,865,316
Non-agency MBS, at fair value	33,501	24	76	1,266	130,553
Mortgage loans, at fair value	45,000	—	—	—	—
Deferred tax assets, net	—	—	800	48,829	72,927
Total assets	4,000,114	4,099,450	4,160,529	4,116,951	4,178,336
Short-term secured debt	3,581,237	3,721,629	3,667,181	3,649,102	3,621,680
Long-term unsecured debt	74,328	74,104	73,880	73,656	73,433
Total stockholders' equity	327,248	274,444	386,317	358,813	459,428
<b>Other Financial Data (unaudited)</b>					
Book value per common share (1)	\$ 7.86	\$ 8.71	\$ 13.43	\$ 15.17	\$ 19.98
Tangible book value per common share (2)	\$ 7.86	\$ 8.71	\$ 13.40	\$ 13.11	\$ 16.81
Market price per share of Class A common stock (3)	\$ 5.57	\$ 7.24	\$ 11.78	\$ 14.82	\$ 13.23
Cash dividends declared per common share	\$ 1.05	\$ 1.675	\$ 2.275	\$ 2.50	\$ 3.00

(1) Book value per common share is calculated as total shareholders' equity less the preferred stock liquidation preference divided by common shares outstanding. Common shares outstanding includes shares of Class A common stock and Class B common stock outstanding plus vested restricted stock units convertible into shares of Class A common stock less unvested restricted shares of Class A common stock.

(2) Tangible book value represents total shareholders' equity less the preferred stock liquidation preference and net deferred tax assets.

(3) Represents the last reported sale price of the Company's Class A common stock on the NYSE as of the year ended on the indicated date.

**Overview**

We are an investment firm that focuses on acquiring and holding a levered portfolio of mortgage investments. Our mortgage investments generally consist of agency MBS and mortgage credit investments. Our agency MBS consist of residential mortgage pass-through certificates for which the principal and interest payments are guaranteed by either a GSE, such as Fannie Mae and Freddie Mac, or by a U.S. government agency, such as Ginnie Mae. Our mortgage credit investments may include investments in mortgage loans secured by either residential or commercial real property or MBS collateralized by such mortgage loans, which we refer to as non-agency MBS. The principal and interest of our mortgage credit investments are not guaranteed by a GSE or U.S. government agency.

We believe we leverage prudently our investment portfolio, as we seek to increase potential returns to our shareholders. We fund our investments primarily through short-term financing arrangements, principally through repurchase agreements. We enter into various hedging transactions to mitigate the interest rate sensitivity of our cost of borrowing and the value of our fixed-rate mortgage investment portfolio.

We intend to elect to be taxed as a REIT under the Internal Revenue Code upon filing our tax return for our taxable year ended December 31, 2019. As a REIT we are required to distribute annually 90% of our REIT taxable income (subject to certain adjustments). So long as we continue to qualify as a REIT, we will generally not be subject to U.S. federal or state corporate income taxes on our taxable income that we distribute to our shareholders on a timely basis. At present, it is our intention to distribute 100% of our taxable income, although we will not be required to do so. We intend to make distributions of our taxable income within the time limits prescribed by the Internal Revenue Code, which may extend into the subsequent taxable year. For our tax years ended December 31, 2018 and earlier, we were taxed as a C corporation for U.S. federal tax purposes.

We are a Virginia corporation. We are an internally managed company and we do not have an external investment advisor.

**Factors that Affect our Results of Operations and Financial Condition**

Our business is materially affected by a variety of industry and economic factors, including:

- conditions in the global financial markets and economic conditions generally;
- changes in interest rates and prepayment rates;
- conditions in the real estate and mortgage markets;
- actions taken by the U.S. government, U.S. Federal Reserve, the U.S. Treasury and foreign central banks;
- changes in laws and regulations and industry practices; and
- other market developments.

**Current Market Conditions and Trends**

The 10-year U.S. Treasury rate was 1.92% as of December 31, 2019, a 77 basis point decrease from the prior year end. The U.S. interest rate curve, measured as the spread between the 2-year and 10-year U.S. Treasury rate, continued to flatten during most of the 2019 year, inverting for a period of time and reaching a low of negative five basis points in August 2019, before steepening to 35 basis points as of December 31, 2019. The spread in rates between 10-year U.S. Treasuries and interest rate swaps narrowed four basis points during the year with the 10-year swap rate ending at 1.90%. Interest rate and market volatility were at heightened levels during 2019. The decline in mortgage rates, elevated prepayment expectations, flattening of the interest rate curve, reduced Federal Reserve support for agency MBS and other factors led to widening of the spread between the market yield on agency MBS and benchmark interest rates during 2019, resulting in the pricing of agency MBS underperforming interest rate hedges.

Following a two-year period in which the Federal Open Market Committee ("FOMC") raised its target federal funds rate by 200 basis points, the FOMC lowered its target federal funds rate 25 basis points three times during 2019 to a current range of 1.50% to 1.75%. After its meeting on December 11, 2019, the FOMC maintained its target range for the federal funds rate at 1.50% to 1.75%, commenting that, in its judgment, the current stance of monetary policy is appropriate to support sustained expansion of economic activity, strong labor market conditions, and inflation near its symmetric 2% objective. Based on federal fund futures prices, market participants currently expect that the FOMC will lower the target federal funds rate by 25 basis points up to two times over the next twelve months.

Earlier in 2019, the FOMC stated that it would modify its previously announced balance sheet normalization policy of gradually decreasing its reinvestment of U.S. Treasury securities and agency MBS. After its meeting on December 11, 2019, the FOMC reaffirmed that it will reinvest all principal payments received on its U.S. Treasury securities and agency MBS holdings; however, principal payments received from its agency MBS will be reinvested in U.S. Treasury securities at a level to maintain its overall holdings in U.S. Treasury securities with any excess principal payments received reinvested in agency MBS.

Starting the week of September 16, 2019, the overnight rate for repurchase agreement (“repo”) financing of U.S. Treasury securities spiked meaningfully intraday from a rate in the low two percent range to a high in the nine percent range primarily due to a scarcity of bank reserves compared with the amount of U.S. Treasury bonds in the market. Market participants have attributed this imbalance in the amount of available bank reserves compared to U.S. Treasury bond supply to a multiple of factors, including the Federal Reserve’s reversal of its quantitative easing policy leading to a reduction in the Federal Reserve’s balance sheet, increased federal government borrowing and U.S. Treasury bond issuances to fund federal budget deficits, and large cash payments reducing the amount of available reserves such as corporate quarterly income tax payments and the monthly settlement of U.S. Treasury security auctions. In response, the Federal Reserve immediately increased bank reserves by offering repo financing for U.S. Treasury and mortgage securities in order to keep the federal funds rate in its target range and stabilize the overnight repo rate. On December 11, 2019, the FOMC announced that it will continue to conduct overnight and term repo operations through at least January 2020, and that it will also purchase shorter-term U.S. Treasury bills at least into the second quarter of 2020 to maintain over time ample reserve balances at or above the level that prevailed in early September 2019.

Prepayment speeds in the fixed-rate residential mortgage market during 2019 increased from the prior year driven primarily by an increase in refinancing volumes due to a decrease in mortgage rates. Housing prices continued to improve as evidenced by the Standard & Poor’s CoreLogic Case-Shiller U.S. National Home Price NSA index reporting a 3.3% annual gain in October 2019 and the overall index reaching a historical high. The favorable economy, moderate mortgage rates and low supply of homes for sale have driven continued gains in housing, although the increase in housing prices is beginning to moderate. However, reduced affordability is beginning to reduce sales of both new and existing single-family homes.

The following table presents certain key market data as of the dates indicated:

	<u>December 31, 2018</u>	<u>March 31, 2019</u>	<u>June 30, 2019</u>	<u>September 30, 2019</u>	<u>December 31, 2019</u>	<u>Change - 2018 to 2019</u>
<b>30-Year FNMA Fixed Rate MBS (1)</b>						
2.5%	\$ 94.30	\$ 97.55	\$ 99.27	\$ 99.58	\$ 98.92	\$ 4.62
3.0%	97.36	99.58	100.80	101.55	101.39	4.03
3.5%	99.83	101.39	102.20	102.64	102.86	3.03
4.0%	101.83	102.86	103.33	103.80	104.02	2.19
4.5%	103.45	104.17	104.48	105.33	105.30	1.85
FNMA Current Coupon vs. 10-year Swap Rate	79 bps	70 bps	78 bps	105 bps	82 bps	3 bps
<b>U.S. Treasury Rates (UST)</b>						
2-year UST	2.49%	2.26%	1.75%	1.62%	1.57%	-92 bps
3-year UST	2.46%	2.21%	1.71%	1.56%	1.61%	-85 bps
5-year UST	2.51%	2.23%	1.77%	1.54%	1.69%	-82 bps
7-year UST	2.59%	2.31%	1.88%	1.61%	1.83%	-76 bps
10-year UST	2.69%	2.41%	2.01%	1.66%	1.92%	-77 bps
30-year UST	3.02%	2.82%	2.53%	2.11%	2.39%	-63 bps
2-year to 10-year UST Spread	20 bps	15 bps	26 bps	4 bps	35 bps	15 bps
<b>Interest Rate Swap Rates</b>						
2-year Swap	2.66%	2.38%	1.81%	1.63%	1.70%	-96 bps
3-year Swap	2.59%	2.31%	1.74%	1.55%	1.69%	-90 bps
5-year Swap	2.57%	2.28%	1.77%	1.50%	1.73%	-84 bps
7-year Swap	2.62%	2.32%	1.84%	1.51%	1.80%	-82 bps
10-year Swap	2.71%	2.41%	1.96%	1.56%	1.90%	-81 bps
30-year Swap	2.84%	2.58%	2.21%	1.71%	2.09%	-75 bps
2-year Swap to 2-year UST Spread	17 bps	12 bps	6 bps	1 bps	13 bps	-4 bps
10-year Swap to 10-year UST Spread	2 bps	0 bps	-5 bps	-10 bps	-2 bps	-4 bps
<b>London Interbank Offered Rates (LIBOR)</b>						
1-month LIBOR	2.50%	2.49%	2.40%	2.02%	1.76%	-74 bps
3-month LIBOR	2.81%	2.60%	2.32%	2.09%	1.91%	-90 bps



- (1) Generic 30-year FNMA TBA price information, sourced from Bloomberg, provided for illustrative purposes only and is not meant to be reflective of the fair value of securities held by the Company.

## Recent Regulatory Activity

Fannie Mae and Freddie Mac commenced their “Single Security Initiative” on June 3, 2019. The Single Security Initiative is a joint initiative of Fannie Mae and Freddie Mac, under the direction of the Federal Housing Finance Committee, to develop a common MBS (referred to as a “Uniform MBS” or “UMBS”) to facilitate the combination of the separate TBA markets of each of the respective GSEs into a single, larger and more liquid market. Existing Freddie Mac pass-through MBS issued prior to June 3, 2019 have a 45-day delay remittance cycle, in which principal and interest payments are remitted to holders 45 days after such payments are due on the underlying mortgage loans, while Fannie Mae MBS have a 55-day delay remittance cycle. As a means to conform existing Freddie Mac MBS to Fannie Mae MBS, Freddie Mac began offering holders of existing Freddie Mac MBS the option to exchange their 45-day delay MBS for a 55-day delay “mirror” MBS which is ultimately collateralized by the same pool of loans as the original 45-day delay MBS for which it was exchanged. For each 45-day MBS that a holder elects to exchange, at the time of the exchange, Freddie Mac will provide an upfront cash payment to the holder as compensation for the prospective 10-day monthly payment delay. We may elect in the future to exchange some, or potentially all, of our existing Freddie Mac 45-day delay MBS for mirror 55-day delay MBS, depending upon our evaluation of the economics of the compensation payment, among other considerations. Any exchanges of Freddie Mac MBS that we may ultimately elect to perform are not expected to materially impact our financial performance or operations.

In January 2014, the Consumer Financial Protection Bureau (“CFPB”) final rule became effective for a qualified mortgage as mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act, commonly referred to as the “QM rule.” A qualified mortgage is a mortgage that meets certain requirements for lender protection and secondary trading. In general, a qualified mortgage (i) contains less risky loan features, such as interest-only periods, negative amortization or balloon payments, (ii) has limits on origination points and fees, (iii) has certain legal protection for lenders, and (iv) has debt-to-income ratio limits. However, the QM rule contained an exemption from the debt-to-income ratio limits for mortgages eligible for purchase by either Fannie Mae or Freddie Mac, commonly referred to as the “QM patch,” which is set to expire on January 10, 2021. On July 25, 2019, the CFPB announced that it plans to allow the QM patch to expire on its scheduled expiration date. However, on January 17, 2020, the Director of the CFPB issued a letter to members of Congress stating that the CFPB intends to propose replacing the debt-to-income ratio limit requirement of a qualified mortgage with an alternative measure of a borrower’s ability to repay, and the CFPB may extend the QM patch beyond its scheduled expiration date to accommodate the implementation of any proposed rulemaking. If the QM patch were to expire, it is expected that the number of mortgage loans eligible to be purchased by Fannie Mae or Freddie Mac would decrease which could result in a decrease in the GSE’s market share while also potentially increasing the market share of non-agency MBS issuers.

On March 27, 2019, President Trump issued a memorandum directing the Secretary of the Treasury to develop a plan for administrative and legislative reforms to achieve the following housing reform goals: (i) ending the conservatorships of Fannie Mae and Freddie Mac upon the completion of specific reforms; (ii) facilitating competition in the housing finance market; (iii) establishing regulation of the GSEs in order to safeguard the safety and soundness of GSEs and minimizes the risks they pose to the financial stability of the United States; and (iv) providing that the Federal government is properly compensated for any explicit or implicit support it provides the GSEs or the secondary housing finance market. On September 5, 2019, the U.S. Treasury released its plan of recommended legislative and administrative reforms to the housing finance system to achieve the goals outlined in the Presidential memorandum.

Since the release of the U.S. Treasury’s plan of recommended reforms to the housing finance system, there have been preliminary actions taken to advance the goals in the plan of recapitalizing and ending the government conservatorship of the GSEs. First, on September 27, 2019, the FHFA and U.S. Treasury entered into an agreement that permits Fannie Mae and Freddie Mac to retain up to \$25 billion and \$20 billion, respectively, in capital. As part of the agreement, the liquidation preference of the U.S. Treasury’s senior preferred stock positions in Fannie Mae and Freddie Mac will be increased by a commensurate amount until the liquidation preferences increase by \$22 billion for Fannie Mae and \$17 billion for Freddie Mac. Second, on October 4, 2019, the FHFA released a solicitation for advisory services to assist in the formulation and potential implementation of a roadmap to responsibly end the conservatorships of the GSEs.

We expect vigorous debate and discussion in a number of areas, including residential housing and mortgage reform, fiscal policy, monetary policy and healthcare, to continue over the next few years; however, we cannot be certain if or when any specific proposal or policy might be announced, emerge from committee or be approved by Congress, and if so, what the effects on us may be.

## *LIBOR Transition*

On July 27, 2017, the U.K. Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021, which could either cause LIBOR to stop publication immediately or cause LIBOR's regulator to determine that its quality had degraded to the degree that it is no longer representative of its underlying market. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, is considering replacing U.S. dollar LIBOR with the Secured Overnight Financing Rate ("SOFR"), a new index calculated by short-term repurchase agreements backed by U.S. Treasury securities. The Federal Reserve Bank of New York began publishing SOFR rates in April 2018. The likely market transition away from LIBOR and towards SOFR is expected to be gradual and complicated. There are significant differences between LIBOR and SOFR, such as LIBOR being an unsecured lending rate while SOFR is a secured lending rate, and LIBOR reflects term rates at different maturities while SOFR is an overnight rate. These and other differences create the potential for basis risk between the two rates. The impact of any basis risk between LIBOR and SOFR may negatively affect our operating results. Any of these alternative methods may result in interest rates that are either higher or lower than if LIBOR were available in its current form, which could have a material adverse effect on our results.

We are party to various financial instruments which include LIBOR as a reference rate. As of December 31, 2019, these financial instruments include interest rate swap agreements, a mortgage loan investment, and preferred stock and unsecured notes issued by the Company.

As of December 31, 2019, we had \$2,985 million notional amount of interest rate swaps outstanding, including \$1,335 million notional amount of interest rate swaps that expire after 2021. Under the terms of our interest rate swap agreements, we make semiannual interest payments based upon a fixed interest rate and receive quarterly interest payments based upon the prevailing three-month LIBOR on the date of reset. All of our existing interest rate swap agreements are centrally cleared by the Chicago Mercantile Exchange ("CME") which acts as the calculation agent with the terms and conditions of each interest rate swap agreement defined in the CME Rulebook and supplemented by the rules published by the International Swaps and Derivative Association, Inc. ("ISDA"). The fallback terms of our current interest rate swap agreements were not designed to cover a permanent discontinuation of LIBOR. Under the terms of the current ISDA definitions, if the publication of LIBOR is not available, the current fallback is for the calculation agent to obtain quotations for what LIBOR should be from major banks in the interbank market. If LIBOR is permanently discontinued, it is possible that major banks would be unwilling and/or unable to give such quotations. Even if quotations were available in the near-term after the permanent discontinuation, it is unlikely that they will be available for each future reset date over the remaining tenor of our interest rate swap agreements. ISDA is currently leading an effort to amend its definitions to include fallbacks for an alternative reference rate that would apply upon the permanent discontinuation of LIBOR. It is anticipated that the amended ISDA definitions would include a statement identifying the objective triggers that would activate a fallback alternative interest rate provision and a description of the fallback alternative interest rate, which is expected to be SOFR adjusted for the fact that SOFR is an overnight rate and the various premia included within LIBOR. It is expected that the CME Rulebook would incorporate any amendments to the ISDA definitions. However, under the terms of the CME Rulebook, if a fallback to an alternative interest rate has not been triggered under future amended ISDA definitions, the CME as the calculation agent has the sole discretion to select an alternative interest rate if it determines that LIBOR is no longer representative of its underlying market.

As of December 31, 2019, we had \$15.0 million of junior subordinated debt outstanding that require quarterly interest payments at three-month LIBOR plus a spread of 2.25% to 3.00% and matures between 2033 and 2035. Under the terms of the indenture agreement for the notes, if the publication of LIBOR is not available, the current fallback is for the independent calculation agent to obtain quotations for what LIBOR should be from major banks in the interbank market. If the calculation agent is unable to obtain such quotations, then the LIBOR in effect for future interest payments would be LIBOR in effect for the immediately preceding interest payment period.

As of December 31, 2019, we had a \$45.0 million mortgage loan investment that bears interest at one-month LIBOR plus a spread of 4.25% with a LIBOR floor of 2.00%. The loan matures on December 30, 2021 with a one-year extension available at the option of the borrower. Under the terms of the loan agreement, if the administrative agent of the loan determines that LIBOR cannot be determined and LIBOR has been succeeded by an alternative floating rate index (i) that is commonly accepted by market participants as an alternative to LIBOR as determined by the administrative agent, (ii) that is publicly recognized by ISDA as an alternative to LIBOR, and (iii) for which ISDA has approved an amendment to hedge agreements generally providing such floating rate index as a standard alternative to LIBOR, then the administrative agent would use such alternative floating rate index as the fallback rate. If the administrative agent determines that no alternative rate index is available, then the fallback interest rate would be based on the prime rate plus an applicable spread.

As of December 31, 2019, we had 1,200,000 shares of 8.250% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock ("Series C Preferred Stock") outstanding with a liquidation preference of \$30.0 million. The Series C Preferred Stock is entitled to receive a cumulative cash dividend (i) from and including the original issue to, but excluding, March 30, 2024 at a fixed rate of 8.250% per annum of the \$25.00 per share liquidation preference, and (ii) from and including March 30, 2024, at a floating rate equal to three-month LIBOR plus a spread of 5.664% per annum of the \$25.00 liquidation preference. Under the terms of our Articles of Incorporation, if the publication of LIBOR is not available, the current fallback is for the Company to obtain quotations for what

LIBOR should be from major banks in the interbank market. If we are unable to obtain such quotations, we are required to appoint an independent calculation agent, which will determine LIBOR based on sources it deems reasonable in its sole discretion. If the calculation agent is unable or unwilling to determine LIBOR, then the LIBOR in effect for future dividend payments would be LIBOR in effect for the immediately preceding dividend payment period.

Notwithstanding the foregoing paragraph, if we determine that LIBOR has been discontinued, we will appoint an independent calculation agent to determine whether there is an industry accepted substitute or successor base rate to three-month LIBOR. If the calculation agent determines that there is an industry accepted substitute or successor base rate, the calculation agent shall use such substitute or successor base rate. If the calculation agent determines that there is not an accepted substitute or successor base rate, then the calculation agent will follow the original fallback language in the previous paragraph.

At this time, it is not possible to predict the effect of any such changes, any establishment of alternative reference rates or any other reforms to LIBOR that may be implemented in the U.K. or elsewhere. Uncertainty as to the nature of such potential changes, alternative reference rates or other reforms may adversely affect the market for or value of any securities on which the interest or dividend is determined by reference to LIBOR, loans, derivatives and other financial obligations or on our overall financial condition or results of operations. More generally, any of the above changes or any other consequential changes to LIBOR or any other “benchmark” as a result of international, national or other proposals for reform or other initiatives or investigations, or any further uncertainty in relation to the timing and manner of implementation of such changes, could have a material adverse effect on the value of and return on any securities based on or linked to a “benchmark.”

## Portfolio Overview

The following table summarizes our mortgage investment portfolio at fair value as of December 31, 2019 and 2018 (dollars in thousands):

	December 31, 2019	December 31, 2018
<b>Agency MBS:</b>		
Specified agency MBS	\$ 3,768,496	\$ 3,982,106
Net long agency TBA dollar roll positions (1)	—	—
Total agency MBS	3,768,496	3,982,106
<b>Mortgage credit investments:</b>		
Non-agency MBS	33,501	24
Mortgage loans	45,000	—
Total mortgage credit investments	78,501	24
Total mortgage investments	<u>\$ 3,846,997</u>	<u>\$ 3,982,130</u>

(1) Represents the fair value of the agency MBS which underlie our TBA forward purchase and sale commitments executed as dollar roll transactions. In accordance with GAAP, our TBA forward purchase and sale commitments are reflected on the consolidated balance sheets as a component of “derivative assets, at fair value” and “derivative liabilities, at fair value,” with a collective net asset carrying value of \$438 as of December 31, 2018.

## Agency MBS Investment Portfolio

Our specified agency MBS consisted of the following as of December 31, 2019 (dollars in thousands):

	Unpaid Principal Balance	Net Unamortized Purchase Premiums	Amortized Cost Basis	Net Unrealized Gain (Loss)	Fair Value	Market Price	Coupon	Weighted Average Expected Remaining Life
<b>30-year fixed rate:</b>								
2.5%	\$ 118,954	\$ 675	\$ 119,629	\$ (1,458)	\$ 118,171	\$ 99.34	2.50%	8.4
3.0%	1,377,252	35,860	1,413,112	(5,182)	1,407,930	102.23	3.00%	7.2
3.5%	1,154,885	35,422	1,190,307	10,791	1,201,098	104.00	3.50%	5.2
4.0%	738,732	24,440	763,172	19,969	783,141	106.01	4.00%	5.0
4.5%	240,634	11,451	252,085	6,057	258,142	107.28	4.50%	4.8
5.5%	12	—	12	2	14	112.61	5.50%	5.9
Total/weighted-average	<u>\$ 3,630,469</u>	<u>\$ 107,848</u>	<u>\$ 3,738,317</u>	<u>\$ 30,179</u>	<u>\$ 3,768,496</u>	\$ 103.80	3.45%	6.0

	Unpaid Principal Balance	Net Unamortized Purchase Premiums	Amortized Cost Basis	Net Unrealized Gain (Loss)	Fair Value	Market Price	Coupon	Weighted Average Expected Remaining Life
Fannie Mae	\$ 1,522,569	\$ 44,240	\$ 1,566,809	\$ 14,107	\$ 1,580,916	\$ 103.83	3.46%	6.0
Freddie Mac	2,107,900	63,608	2,171,508	16,072	2,187,580	103.78	3.44%	5.9
Total/weighted-average	<u>\$ 3,630,469</u>	<u>\$ 107,848</u>	<u>\$ 3,738,317</u>	<u>\$ 30,179</u>	<u>\$ 3,768,496</u>	103.80	3.45%	6.0

The actual annualized prepayment rate for the Company's agency MBS was 10.66% for the year ended December 31, 2019 compared to 9.42% for the year ended December 31, 2018. As of December 31, 2019, the Company's agency MBS was comprised of securities specifically selected for their relatively lower propensity for prepayment, which includes approximately 74% in specified pools of low balance loans while the remainder includes specified pools of loans originated in certain geographical areas, loans refinanced through the U.S. Government sponsored Home Affordable Refinance Program or with other characteristics selected for their relatively lower propensity for prepayment.

Our agency MBS investment portfolio may also include net long TBA positions, which are primarily the result of executing sequential series of "dollar roll" transactions that are settled on a net basis. In accordance with GAAP, we account for our net long TBA positions as derivative instruments. As of December 31, 2019, we did not have any net long TBA agency positions.

#### *Mortgage Credit Investment Portfolio*

Our mortgage credit investment portfolio was comprised of a \$45.0 million commercial mortgage loan and \$33.5 million of non-agency MBS collateralized primarily by commercial mortgage loans, all of which were acquired during the fourth quarter of 2019. The Company's non-agency MBS investments as of December 31, 2019 consisted primarily of investments collateralized by either a pool of small balance commercial mortgage loans or a single asset commercial mortgage loan.

#### *Economic Hedging Instruments*

The Company attempts to hedge a portion of its exposure to interest rate fluctuations associated with its agency MBS primarily through the use of interest rate hedging instruments. Specifically, these interest rate hedging instruments are intended to economically hedge changes, attributable to changes in benchmark interest rates, in agency MBS fair values and future interest cash flows on the Company's short-term financing arrangements. During 2019, the interest rate hedging instruments primarily used by the Company were centrally cleared interest rate swap agreements and exchange-traded 10-year U.S. Treasury note futures.

The Company's interest rate swap agreements represent agreements to make semiannual interest payments based upon a fixed interest rate and receive quarterly variable interest payments based upon the prevailing three-month LIBOR on the date of reset. Information about the Company's outstanding interest rate swap agreements in effect as of December 31, 2019 is as follows (dollars in thousands):

	Notional Amount	Weighted-average:			
		Fixed Pay Rate	Variable Receive Rate	Net Receive (Pay) Rate	Remaining Life (Years)
Years to maturity:					
Less than 3 years	\$ 2,050,000	1.77%	1.92%	0.15%	1.6
3 to less than 7 years	510,000	1.61%	1.92%	0.31%	6.0
7 to less than 10 years	400,000	2.24%	1.91%	(0.33)%	9.5
10 or more years	25,000	2.96%	1.90%	(1.06)%	28.2
Total / weighted-average	<u>\$ 2,985,000</u>	1.81%	1.92%	0.11%	3.6

In addition to interest rate swap agreements, the Company may also use exchange-traded U.S. Treasury note futures that are short positions that mature on a quarterly basis. Upon the maturity date of these futures contracts, the Company has the option to either net settle each contract in cash in an amount equal to the difference between the current fair value of the underlying U.S. Treasury note and the contractual sale price inherent to the futures contract, or to physically settle the contract by delivering the underlying U.S. Treasury note. As of December 31, 2019, the Company had no outstanding U.S. Treasury note futures.

## Results of Operations

### *Net Interest Income*

Net interest income determined in accordance with GAAP primarily represents the interest income recognized from our specified agency MBS and mortgage credit investments (including the amortization of purchase premiums and accretion of purchase discounts), net of the interest expense incurred from repurchase agreement financing arrangements or other short- and long-term borrowing transactions.

Net interest income determined in accordance with GAAP does not include TBA agency MBS dollar roll income, which we believe represents the economic equivalent of net interest income generated from our investments in non-specified fixed-rate agency MBS, nor does it include the net interest income or expense of our interest rate swap agreements, which are not designated as hedging instruments for financial reporting purposes. In our consolidated statements of comprehensive income prepared in accordance with GAAP, TBA agency MBS dollar roll income and the net interest income or expense from our interest rate swap agreements are reported as a component of the overall periodic change in the fair value of derivative instruments within the line item “gain (loss) from derivative instruments, net” of the “investment gain (loss), net” section.

### *Investment Gain (Loss), Net*

“Investment gain (loss), net” primarily consists of periodic changes in the fair value (whether realized or unrealized) of the Company’s mortgage investments and periodic changes in the fair value (whether realized or unrealized) of derivative instruments.

### *General and Administrative Expenses*

“Compensation and benefits expense” includes base salaries, annual cash incentive compensation, and non-cash stock-based compensation. Annual cash incentive compensation is based on meeting estimated annual performance measures and discretionary components. Non-cash stock-based compensation includes expenses associated with stock-based awards granted to employees, including the Company’s performance share units to named executive officers that are earned only upon the attainment of Company performance measures over the relevant measurement period.

“Other general and administrative expenses” primarily consists of the following:

- professional services expenses, including accounting, legal and consulting fees;
- insurance expenses, including liability and property insurance;
- occupancy and equipment expense, including rental costs for our facilities, and depreciation and amortization of equipment and software;
- fees and commissions related to transactions in interest rate derivative instruments;
- Board of Director fees; and
- other operating expenses, including information technology expenses, business development costs, public company reporting expenses, proxy solicitation expenses, corporate registration fees, local license taxes, office supplies and other miscellaneous expenses.

### Comparison of the years ended December 31, 2019 and 2018

The following table presents the net income (loss) available (attributable) to common stock reported for the years ended December 31, 2019 and 2018, respectively (dollars in thousands, except per share amounts):

	Year Ended December 31,	
	2019	2018
Interest income	\$ 123,478	\$ 130,953
Interest expense	97,250	84,825
Net interest income	26,228	46,128
Investment advisory fee income	332	—
Investment gain (loss), net	2,197	(123,822)
General and administrative expenses	15,015	13,370
Income (loss) before income taxes	13,742	(91,064)
Income tax provision	—	733
Net income (loss)	13,742	(91,797)
Dividend on preferred stock	(2,600)	(590)
Net income (loss) available (attributable) to common stock	11,142	(92,387)
Diluted earnings (loss) per common share	\$ 0.31	\$ (3.18)
Weighted-average diluted common shares outstanding	35,833	29,052

#### GAAP Net Interest Income

Net interest income determined in accordance with GAAP (“GAAP net interest income”) decreased \$19.9 million, or 43.2%, from \$46.1 million for the year ended December 31, 2018 to \$26.2 million for the year ended December 31, 2019. The decrease from the comparative period is primarily attributable to a 40 basis point increase in the average interest costs of our short-term secured financing arrangements (due primarily to an increase in prevailing benchmark short-term interest rates) as well as lower average leverage and portfolio volumes.

The components of GAAP net interest income from our mortgage investment portfolio is summarized in the following table for the periods indicated (dollars in thousands):

	Year Ended December 31,					
	2019			2018		
	Average Balance	Income (Expense)	Yield (Cost)	Average Balance	Income (Expense)	Yield (Cost)
Agency MBS	\$ 3,961,257	\$ 122,227	3.09%	\$ 4,199,274	\$ 130,258	3.10%
Mortgage credit investments	2,703	192	7.10%	—	—	—
Other	—	1,059		—	695	
	<u>\$ 3,963,960</u>	<u>123,478</u>	<u>3.12%</u>	<u>\$ 4,199,274</u>	<u>130,953</u>	<u>3.12%</u>
Short-term secured debt	\$ 3,690,093	(92,200)	(2.46)%	\$ 3,817,870	(79,812)	(2.06)%
Long-term unsecured debt	74,225	(5,050)	(6.80)%	74,001	(5,013)	(6.77)%
	<u>\$ 3,764,318</u>	<u>(97,250)</u>	<u>(2.55)%</u>	<u>\$ 3,891,871</u>	<u>(84,825)</u>	<u>(2.15)%</u>
Net interest income/spread (1)		<u>\$ 26,228</u>	<u>0.66%</u>		<u>\$ 46,128</u>	<u>1.06%</u>
Net interest margin (1)			0.79%			1.22%

(1) Net interest income/spread and net interest margin excludes interest on long-term unsecured debt.

The effects of changes in the composition of our investments on our GAAP net interest income from our mortgage investment activities are summarized below (dollars in thousands):

	Year Ended December 31, 2019 vs. Year Ended December 31, 2018		
	Rate	Volume	Total Change
Agency MBS	\$ (647)	\$ (7,384)	\$ (8,031)
Mortgage credit investments	—	192	192
Other	364	—	364
Short-term secured debt	(14,997)	2,609	(12,388)
Long-term unsecured debt	(23)	(14)	(37)
	<u>\$ (15,303)</u>	<u>\$ (4,597)</u>	<u>\$ (19,900)</u>

#### *Economic Net Interest Income*

Economic net interest income, a non-GAAP financial measure, represents the interest income earned net of the interest expense incurred from all of our interest bearing financial instruments as well as the agency MBS which underlie, and are implicitly financed through, our TBA dollar roll transactions. Economic net interest income is comprised of the following: (i) net interest income determined in accordance with GAAP, (ii) TBA agency MBS “dollar roll” income, and (iii) net interest income earned or expense incurred from interest rate swap agreements. We believe that economic net interest income assists investors in understanding and evaluating the financial performance of the Company’s long-term-focused, net interest spread-based investment strategy, prior to the deduction of core general and administrative expenses. For a full description of each of the three aforementioned components of economic net interest income, see “Non-GAAP Core Operating Income” below.

The components of our economic net interest income are summarized in the following table for the periods indicated (dollars in thousands):

	Year Ended December 31,					
	2019			2018		
	Average Balance	Income (Expense)	Yield (Cost)	Average Balance	Income (Expense)	Yield (Cost)
Agency MBS	\$ 3,961,257	\$ 122,227	3.09%	\$ 4,199,274	\$ 130,258	3.10%
Mortgage credit investments	2,703	192	7.10%	—	—	—
TBA dollar rolls (1)	493,482	4,470	0.91%	1,138,229	20,929	1.84%
Other	—	1,059	—	—	695	—
Short-term secured debt	3,690,093	(92,200)	(2.46)%	3,817,870	(79,812)	(2.06)%
Interest rate swaps (2)	2,955,989	15,087	0.51%	3,457,218	6,266	0.18%
Long-term unsecured debt	74,225	(5,050)	(6.80)%	74,001	(5,013)	(6.77)%
Economic net interest income/margin (3)		<u>\$ 45,785</u>	1.14%		<u>\$ 73,323</u>	1.47%

- (1) TBA dollar roll average balance (average cost basis) is based upon the contractual price of the initial TBA purchase trade of each individual series of dollar roll transactions. TBA dollar roll income is net of implied financing costs.
- (2) Interest rate swap cost represents the weighted average net receive (pay) rate in effect for the period, adjusted for “price alignment interest” income earned or expense incurred on cumulative variation margin paid or received, respectively.
- (3) Economic net interest margin excludes interest on long-term unsecured debt.

The effects of changes in the composition of our investments on our economic net interest income from our mortgage investment and related funding and hedging activities are summarized below (dollars in thousands):

	Year Ended December 31, 2019 vs. Year Ended December 31, 2018		
	Rate	Volume	Total Change
Agency MBS	\$ (647)	\$ (7,384)	\$ (8,031)
Mortgage credit investments	—	192	192
TBA dollar rolls	(4,604)	(11,855)	(16,459)
Other	364	—	364
Short-term secured debt	(14,997)	2,609	(12,388)
Interest rate swaps	9,730	(909)	8,821
Long-term unsecured debt	(23)	(14)	(37)
	<u>\$ (10,177)</u>	<u>\$ (17,361)</u>	<u>\$ (27,538)</u>

Economic net interest income for the year ended December 31, 2019 decreased relative to the prior year primarily due to lower average leverage and portfolio volumes and higher financing costs on the unhedged portion of our short-term secured financing arrangements and implied TBA financing (driven primarily by an increase in prevailing benchmark short-term interest rates).

#### *Investment Advisory Fee Income*

We formed a wholly-owned subsidiary, Rock Creek Investment Advisors, LLC (“Rock Creek”), which was approved as a registered investment adviser and is regulated under the Investment Advisers Act of 1940, as amended (the “Advisers Act”), in the fourth quarter of 2018 and commenced operations in December 2018. Rock Creek provides investment advisory services to institutional clients on a separate account basis by investing primarily in agency MBS. Rock Creek earns investment management fee income based upon a percentage of the capital funded by a client to its separate managed account. During the year ended December 31, 2019, we recognized \$0.3 million in investment advisory fee income.

#### *Investment Gain (Loss), Net*

As prevailing longer-term interest rates increase (decrease), the fair value of our investments in fixed rate agency MBS and TBA commitments generally decreases (increases). Conversely, the fair value of our interest rate derivative hedging instruments increases (decreases) in response to increases (decreases) in prevailing interest rates. While our interest rate derivative hedging instruments are designed to mitigate the sensitivity of the fair value of our agency MBS portfolio to fluctuations in interest rates, they are not generally designed to mitigate the sensitivity of our net book value to spread risk, which is the risk of an increase of the market spread between the yield on our agency MBS and the benchmark yield on U.S. Treasury securities or interest rate swaps. Accordingly, irrespective of fluctuations in interest rates, an increase (decrease) in MBS spreads will generally result in the underperformance (outperformance) of the values of agency MBS relative to interest rate hedging instruments.

The following table presents information about the gains and losses recognized due to the changes in the fair value of our trading investments, which include agency MBS and mortgage credit investments, TBA transactions, and interest rate hedging instruments for the periods indicated (dollars in thousands):

	Year Ended December 31,	
	2019	2018
Gains (losses) on agency MBS investments, net	\$ 128,181	\$ (114,480)
Losses on mortgage credit investments, net	(152)	(42)
TBA commitments, net:		
TBA dollar roll income	4,470	20,929
Other gains (losses) from TBA commitments, net	15,904	(64,627)
Total gains (losses) on TBA commitments, net	<u>20,374</u>	<u>(43,698)</u>
Interest rate derivatives:		
Net interest income on interest rate swaps	15,087	6,266
Other (losses) gains from interest rate derivative instruments, net	(161,651)	27,775
Total (losses) gains on interest rate derivatives, net	<u>(146,564)</u>	<u>34,041</u>
Other, net	358	357
Investment gain (loss), net	<u>\$ 2,197</u>	<u>\$ (123,822)</u>



During the years ended December 31, 2019 and 2018, agency MBS spreads widened which resulted in the underperformance of our investments in agency MBS and TBA commitments relative to our interest rate hedging instruments.

#### *General and Administrative Expenses*

General and administrative expenses increased by \$1.6 million, or 11.9%, from \$13.4 million for the year ended December 31, 2018 to \$15.0 million for the year ended December 31, 2019.

Compensation and benefits expensed increased by \$1.9 million, or 22.9%, from \$8.3 million for the year ended December 31, 2018 to \$10.2 million for the year ended December 31, 2019. The increase in compensation and benefits expenses is primarily attributable to a reversal of \$1.9 million of expense recognized in prior periods due to a reduction in the number of employee long-term performance oriented stock-based compensation units expected to vest based on deterioration in performance metrics recognized for the year ended December 31, 2018 with no comparable reversal recognized for the year ended December 31, 2019.

Other general and administrative expenses decreased by \$0.2 million, or 4.0%, from \$5.0 million for the year ended December 31, 2018 to \$4.8 million for the year ended December 31, 2019.

#### *Income Tax Provision*

On December 27, 2018, our Board of Directors approved a plan for us to elect to be taxed and to operate in a manner that will allow us to qualify as a REIT for U.S. federal income tax purposes commencing with our taxable year ending December 31, 2019. So long as we continue to qualify as a REIT, we will generally not be subject to U.S. federal or state corporate income taxes on our taxable income to the extent that we distribute 100% of our taxable income to our shareholders on a timely basis. For taxable years ended December 31, 2018 and prior, we were subject to taxation as a corporation under Subchapter C of the Internal Revenue Code.

#### **Comparison of the years ended December 31, 2018 and 2017**

The following table presents the total comprehensive income (loss) reported for the years ended December 31, 2018 and 2017, respectively (dollars in thousands, except per share amounts):

	<b>Year Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Interest income	\$ 130,953	\$ 121,248
Interest expense	84,825	51,514
Net interest income	46,128	69,734
Investment (loss) gain, net	(123,822)	5,874
General and administrative expenses	13,370	18,570
(Loss) income before income taxes	(91,064)	57,038
Income tax provision	733	39,603
Net (loss) income	(91,797)	17,435
Dividend on preferred stock	(590)	(251)
Net (loss) income (attributable) available to common stock	(92,387)	17,184
Diluted (loss) earnings per common share	\$ (3.18)	\$ 0.66
Weighted-average diluted common shares outstanding	29,052	26,011

#### *GAAP Net Interest Income*

GAAP net interest income decreased \$23.6 million, or 33.9%, from \$69.7 million for the year ended December 31, 2017 to \$46.1 million for the year ended December 31, 2018. The decrease from the comparative period is primarily attributable to a 90 basis point increase in the average interest costs of our short-term secured financing arrangements due primarily to an increase in prevailing benchmark short-term interest rates, partially offset by an increase in the average asset yields of our specified agency MBS due to reinvestments from portfolio repositioning and monthly paydowns into higher current investment yields as a result of a rise in long-term interest rates and widening agency MBS spreads.

The components of GAAP net interest income from our MBS portfolio is summarized in the following table for the periods indicated (dollars in thousands):

	Year Ended December 31,					
	2018			2017		
	Average Balance	Income (Expense)	Yield (Cost)	Average Balance	Income (Expense)	Yield (Cost)
Agency MBS	\$ 4,199,274	\$ 130,258	3.10%	\$ 4,258,079	\$ 120,968	2.84%
Other	—	695		—	280	
	<u>\$ 4,199,274</u>	<u>130,953</u>	3.12%	<u>\$ 4,258,079</u>	<u>121,248</u>	2.85%
Short-term secured debt	\$ 3,817,870	(79,812)	(2.06)%	\$ 3,950,139	(46,648)	(1.16)%
Long-term unsecured debt	74,001	(5,013)	(6.77)%	73,778	(4,866)	(6.60)%
	<u>\$ 3,891,871</u>	<u>(84,825)</u>	(2.15)%	<u>\$ 4,023,917</u>	<u>(51,514)</u>	(1.26)%
Net interest income/spread (1)		<u>\$ 46,128</u>	1.06%		<u>\$ 69,734</u>	1.69%
Net interest margin (1)			1.22%			1.75%

(1) Net interest income/spread and net interest margin excludes interest on long-term unsecured debt.

The effects of changes in the composition of our investments on our GAAP net interest income from our MBS investment activities are summarized below (dollars in thousands):

	Year Ended December 31, 2018		
	vs.		
	Year Ended December 31, 2017		
	Rate	Volume	Total Change
Agency MBS	\$ 10,961	\$ (1,671)	\$ 9,290
Other	415	—	415
Short-term secured debt	(34,685)	1,521	(33,164)
Long-term unsecured debt	(132)	(15)	(147)
	<u>\$ (23,441)</u>	<u>\$ (165)</u>	<u>\$ (23,606)</u>

#### Economic Net Interest Income

Economic net interest income, a non-GAAP financial measure, represents the interest income earned net of the interest expense incurred from all of our interest bearing financial instruments as well as the agency MBS which underlie, and are implicitly financed through, our TBA dollar roll transactions. Economic net interest income is comprised of the following: (i) net interest income determined in accordance with GAAP, (ii) TBA agency MBS “dollar roll” income, and (iii) net interest income earned or expense incurred from interest rate swap agreements. We believe that economic net interest income assists investors in understanding and evaluating the financial performance of the Company’s long-term-focused, net interest spread-based investment strategy, prior to the deduction of core general and administrative expenses. For a full description of each of the three aforementioned components of economic net interest income, see “Non-GAAP Core Operating Income” below.

The components of our economic net interest income are summarized in the following table for the periods indicated (dollars in thousands):

	Year Ended December 31,					
	2018			2017		
	Average Balance	Income (Expense)	Yield (Cost)	Average Balance	Income (Expense)	Yield (Cost)
Agency MBS	\$ 4,199,274	\$ 130,258	3.10%	\$ 4,258,079	\$ 120,968	2.84%
TBA dollar rolls (1)	1,138,229	20,929	1.84%	985,610	21,291	2.16%
Other	—	695		—	280	
Short-term secured debt	3,817,870	(79,812)	(2.06)%	3,950,139	(46,648)	(1.16)%
Interest rate swaps (2)	3,457,218	6,266	0.18%	3,472,936	(17,334)	(0.50)%
Long-term unsecured debt	74,001	(5,013)	(6.77)%	73,778	(4,866)	(6.60)%
Economic net interest income/margin (3)		<u>\$ 73,323</u>	1.47%		<u>\$ 73,691</u>	1.50%

- (1) TBA dollar roll average balance (average cost basis) is based upon the contractual price of the initial TBA purchase trade of each individual series of dollar roll transactions. TBA dollar roll income is net of implied financing costs.
- (2) Interest rate swap cost represents the weighted average net receive (pay) rate in effect for the period, adjusted for “price alignment interest” income earned or expense incurred on cumulative variation margin paid or received, respectively.
- (3) Economic net interest margin excludes interest on long-term unsecured debt.

The effects of changes in the composition of our investments on our economic net interest income from our MBS investment and related funding and hedging activities are summarized below (dollars in thousands):

	Year Ended December 31, 2018		
	vs.		
	Year Ended December 31, 2017		
	Rate	Volume	Total Change
Agency MBS	\$ 10,961	\$ (1,671)	\$ 9,290
TBA dollar rolls	(3,659)	3,297	(362)
Other	415	—	415
Short-term secured debt	(34,685)	1,521	(33,164)
Interest rate swaps	23,522	78	23,600
Long-term unsecured debt	(132)	(15)	(147)
	<u>\$ (3,578)</u>	<u>\$ 3,210</u>	<u>\$ (368)</u>

Economic net interest income for the year ended December 31, 2018 decreased relative to the prior year primarily due to higher financing costs on the unhedged portion of our short-term secured financing arrangements and implied TBA financing driven primarily by an increase in prevailing benchmark short-term interest rates, partially offset by higher average portfolio balances primarily driven by deployment of capital raised during the periods and an increase in the average asset yields of our specified agency MBS.

#### *Investment Gain (Loss), Net*

As prevailing longer-term interest rates increase (decrease), the fair value of our investments in fixed rate agency MBS and TBA commitments generally decreases (increases). Conversely, the fair value of our interest rate derivative hedging instruments increases (decreases) in response to increases (decreases) in prevailing interest rates. While our interest rate derivative hedging instruments are designed to mitigate the sensitivity of the fair value of our agency MBS portfolio to fluctuations in interest rates, they are not generally designed to mitigate the sensitivity of our net book value to spread risk, which is the risk of an increase of the market spread between the yield on our agency MBS and the benchmark yield on U.S. Treasury securities or interest rate swaps. Accordingly, irrespective of fluctuations in interest rates, an increase (decrease) in MBS spreads will generally result in the underperformance (outperformance) of the values of agency MBS relative to interest rate hedging instruments.

The following table presents information about the gains and losses recognized due to the changes in the fair value of our agency MBS, TBA transactions, and interest rate derivative instruments for the periods indicated (dollars in thousands):

	Year Ended December 31,	
	2018	2017
(Losses) gains on trading investments, net	\$ (114,522)	\$ 2,424
TBA commitments, net:		
TBA dollar roll income	20,929	21,291
Other losses from TBA commitments, net	(64,627)	(4,580)
Total (losses) gains on TBA commitments, net	<u>(43,698)</u>	<u>16,711</u>
Interest rate derivatives:		
Net interest income (expense) on interest rate swaps	6,266	(17,334)
Other gains from interest rate derivative instruments, net	27,775	3,847
Total gains (losses) on interest rate derivatives, net	<u>34,041</u>	<u>(13,487)</u>
Other, net	357	226
Investment (loss) gain, net	<u>\$ (123,822)</u>	<u>\$ 5,874</u>

During the year ended December 31, 2018, agency MBS spreads widened meaningfully which resulted in the underperformance of our investments in agency MBS and TBA commitments relative to our interest rate hedging instruments. During the year ended

December 31, 2017, agency MBS spreads tightened modestly which resulted in the outperformance of our investments in agency MBS and TBA commitments relative to our interest rate hedging instruments.

#### *General and Administrative Expenses*

General and administrative expenses decreased by \$5.2 million, or 28.0%, from \$18.6 million for the year ended December 31, 2017 to \$13.4 million for the year ended December 31, 2018.

Compensation and benefits expensed decreased by \$4.9 million, or 37.1%, from \$13.2 million for the year ended December 31, 2017 to \$8.3 million for the year ended December 31, 2018. The decrease in compensation and benefits expenses for the year ended December 31, 2018 is mostly attributable to decreases in employee long-term performance oriented stock-based compensation and annual cash incentive compensation. Employee stock-based compensation decreased by \$3.1 million for the year ended December 31, 2018 compared to the prior year primarily due to the Company not expecting to achieve certain performance measures. Employee annual cash incentive compensation decreased \$1.8 million during the year ended December 31, 2018 as compared to the prior year due to not achieving specific annual performance measures and overall Company performance.

Other general and administrative expenses decreased by \$0.4 million, or 7.4%, from \$5.4 million for the year ended December 31, 2017 to \$5.0 million for the year ended December 31, 2018.

#### *Income Tax Provision*

For our taxable years ended December 31, 2018 and earlier, we were subject to taxation as a corporation under Subchapter C of the Internal Revenue Code. For our taxable year ended December 31, 2018, we had NOL and NCL carryforwards that allowed us to eliminate any income tax liability for the year. On December 27, 2018, our Board of Directors approved a plan for us to elect to be taxed and to operate in a manner that will allow us to qualify as a REIT under the Internal Revenue Code commencing with our taxable year ending December 31, 2019. Since all significant actions necessary for us to qualify as a REIT effective January 1, 2019 were met as of December 31, 2018, we eliminated our deferred assets and liabilities as of that date. Accordingly, our income tax provision for the year ended December 31, 2018 of \$733 consists primarily of the elimination of our net deferred tax asset as of the beginning of the year.

For our taxable year ended December 31, 2017, we had NOL and NCL carryforwards that allowed us to eliminate any income tax liability for the year except for the taxable income subject to the federal alternative minimum tax. For the year ended December 31, 2017, we recognized an income tax provision of \$39.6 million, which includes an increase in the valuation allowance against the deferred tax assets of \$16.8 million. During the year ended December 31, 2017, we determined that we should record a full valuation allowance against our deferred tax assets that are capital in nature consisting of our NCL carryforwards and temporary GAAP to tax differences that are expected to result in capital losses in future periods. The increase to the valuation allowance during the year ended December 31, 2017 is attributable primarily to the determination to record a full valuation allowance instead of a partial valuation allowance against our deferred tax assets that are capital in nature.

#### **Non-GAAP Core Operating Income**

In addition to the results of operations determined in accordance with GAAP, we reported “non-GAAP core operating income.” We define core operating income as “economic net interest income” and investment advisory fee income less “core general and administrative expenses.”

#### *Economic Net Interest Income*

Economic net interest income, a non-GAAP financial measure, represents the interest income earned net of the interest expense incurred from all of our interest bearing financial instruments as well as the agency MBS which underlie, and are implicitly financed through, our TBA dollar roll transactions. Economic net interest income is comprised of the following: (i) net interest income determined in accordance with GAAP, (ii) TBA agency MBS “dollar roll” income, and (iii) net interest income earned or expense incurred from interest rate swap agreements.

We believe that economic net interest income assists investors in understanding and evaluating the financial performance of the Company’s long-term-focused, net interest spread-based investment strategy, prior to the deduction of core general and administrative expenses.

- *Net interest income determined in accordance with GAAP.* Net interest income determined in accordance with GAAP primarily represents the interest income recognized from our specified agency MBS and mortgage credit investments (including the amortization of purchase premiums and accretion of purchase discounts), net of the interest expense incurred from repurchase agreement financing arrangements or other short- and long-term borrowing transactions.

- *TBA agency MBS dollar roll income.* Dollar roll income represents the economic equivalent of net interest income (implied interest income net of financing costs) generated from our investments in non-specified fixed-rate agency MBS, executed through sequential series of forward-settling purchase and sale transactions that are settled on a net basis (known as “dollar roll” transactions). Dollar roll income is generated as a result of delaying, or “rolling,” the settlement of a forward-settling purchase of a TBA agency MBS by entering into an offsetting “spot” sale with the same counterparty prior to the settlement date, net settling the “paired-off” positions in cash, and contemporaneously entering another forward-settling purchase with the same counterparty of a TBA agency MBS of the same essential characteristics for a later settlement date at a price discount relative to the spot sale. The price discount of the forward-settling purchase relative to the contemporaneously executed spot sale reflects compensation for the interest income (inclusive of expected prepayments) that, at the time of sale, is expected to be foregone as a result of relinquishing beneficial ownership of the MBS from the settlement date of the spot sale until the settlement date of the forward purchase, net of implied repurchase financing costs. We calculate dollar roll income as the excess of the spot sale price over the forward-settling purchase price, and recognize this amount ratably over the period beginning on the settlement date of the sale and ending on the settlement date of the forward purchase. In our consolidated statements of comprehensive income prepared in accordance with GAAP, TBA agency MBS dollar roll income is reported as a component of the overall periodic change in the fair value of TBA forward commitments within the line item “gain (loss) from derivative instruments, net” of the “investment gain (loss), net” section.

From time to time, we may enter into forward-settling TBA agency MBS sale commitments (known as a “net short” TBA position) as a means of economically hedging a portion of the interest rate sensitivity of our agency MBS investment portfolio. When we delay (or “roll”) the settlement of a net short TBA position, the price discount of the forward-settling sale relative to the contemporaneously executed spot purchase results in an implied net interest expense (i.e., “dollar roll expense”). In our presentation of non-GAAP core operating income, we present TBA dollar roll income net of any implied net interest expense that resulted from rolling the settlement of net short TBA positions.

- *Net interest income earned or expense incurred from interest rate swap agreements.* We utilize interest rate swap agreements to economically hedge a portion of our exposure to variability in future interest cash flows, attributable to changes in benchmark interest rates, associated with future roll-overs of our short-term financing arrangements. Accordingly, the net interest income earned or expense incurred (commonly referred to as “net interest carry”) from our interest rate swap agreements in combination with interest expense recognized in accordance with GAAP represents our effective “economic interest expense.” In our consolidated statements of comprehensive income prepared in accordance with GAAP, the net interest income earned or expense incurred from interest rate swap agreements is reported as a component of the overall periodic change in the fair value of derivative instruments within the line item “gain (loss) from derivative instruments, net” of the “investment gain (loss), net” section.

#### *Core General and Administrative Expenses*

Core general and administrative expenses are non-interest expenses reported within the line item “total general and administrative expenses” of the consolidated statements of comprehensive income less stock-based compensation expense. For the year ended December 31, 2019, core general and administrative expenses exclude a non-recurring expense related to a one-time out-of-period payment made in 2019 for a business, professional and occupation license tax from Arlington County, Virginia for the 2018 tax year. Refer to “Note 11. Income Taxes” for further information about the business, professional and occupation license tax and the associated payment made in 2019.

#### *Non-GAAP Core Operating Income*

The following table presents our computation of non-GAAP core operating income for the periods indicated (amounts in thousands, except per share amounts):

	For the Year Ended December 31,		
	2019	2018	2017
GAAP net interest income	\$ 26,228	\$ 46,128	\$ 69,734
TBA dollar roll income	4,470	20,929	21,291
Interest rate swap net interest income (expense)	15,087	6,266	(17,334)
Economic net interest income	45,785	73,323	73,691
Investment advisory fee income	332	—	—
Core general and administrative expenses	(11,747)	(12,534)	(14,644)
Preferred stock dividend	(2,600)	(590)	(251)
Non-GAAP core operating income	<u>\$ 31,770</u>	<u>\$ 60,199</u>	<u>\$ 58,796</u>
Non-GAAP core operating income per diluted common share	<u>\$ 0.89</u>	<u>\$ 2.06</u>	<u>\$ 2.26</u>
Weighted average diluted common shares outstanding	<u>35,833</u>	<u>29,269</u>	<u>26,011</u>

The following table provides a reconciliation of GAAP pre-tax net income (loss) to non-GAAP core operating income for the periods indicated (amounts in thousands):

	For the Year Ended December 31,		
	2019	2018	2017
GAAP net income (loss) before income taxes	\$ 13,742	\$ (91,064)	\$ 57,038
Add (less):			
Total investment (gain) loss, net	(2,197)	123,822	(5,874)
Stock-based compensation expense	2,780	836	3,926
Preferred stock dividend	(2,600)	(590)	(251)
Non-recurring expense	488	—	—
Add back:			
TBA dollar roll income	4,470	20,929	21,291
Interest rate swap net interest income (expense)	15,087	6,266	(17,334)
Non-GAAP core operating income	<u>\$ 31,770</u>	<u>\$ 60,199</u>	<u>\$ 58,796</u>

Non-GAAP core operating income is used by management to evaluate the financial performance of the Company's long-term-focused, net interest spread-based investment strategy and core business activities over periods of time as well as assist with the determination of the appropriate level of periodic dividends to common stockholders. In addition, we believe that non-GAAP core operating income assists investors in understanding and evaluating the financial performance of the Company's long-term-focused, net interest spread-based investment strategy and core business activities over periods of time as well as its earnings capacity.

Periodic fair value gains and losses recognized with respect to our mortgage investments and economic hedging instruments, which are reported in line item "total investment gain (loss), net" of our consolidated statements of comprehensive income, are excluded from the computation of non-GAAP core operating income as such gains or losses are not reflective of the economic interest income earned or interest expense incurred from our interest-bearing financial assets and liabilities during the indicated reporting period. Because our long-term-focused investment strategy for our mortgage investment portfolio is to generate a net interest spread on the leveraged assets while prudently hedging periodic changes in the fair value of those assets attributable to changes in benchmark interest rates, we generally expect the fluctuations in the fair value of our mortgage investments and economic hedging instruments to largely offset one another over time.

A limitation of utilizing this non-GAAP financial measure is that the effect of accounting for "non-core" events or transactions in accordance with GAAP does, in fact, reflect the financial results of our business and these effects should not be ignored when evaluating and analyzing our financial results. For example, the economic cost or benefit of hedging instruments other than interest rate swap agreements, such as U.S. Treasury note futures or options, do not affect the computation of non-GAAP core operating income. In addition, our calculation of non-GAAP core operating income may not be comparable to other similarly titled measures of other companies. Therefore, we believe that non-GAAP core operating income should be considered as a supplement to, and in conjunction with, net income and comprehensive income determined in accordance with GAAP. Furthermore, there may be differences between non-GAAP core operating income and taxable income determined in accordance with the Internal Revenue Code. As a REIT, we are required to distribute at least 90% of our REIT taxable income (subject to certain adjustments) to qualify as a REIT and all of our taxable income in order to not be subject to any U.S. federal or state corporate income taxes. Accordingly, non-GAAP core operating income may not equal our distribution requirements as a REIT.

## Liquidity and Capital Resources

Liquidity is a measurement of our ability to meet potential cash requirements including ongoing commitments to repay borrowings, fund investments, meet margin calls on our short-term borrowings and hedging instruments, and for other general business purposes. Our primary sources of funds for liquidity consist of existing cash balances, short-term borrowings (for example, repurchase agreements), principal and interest payments from our mortgage investments, and proceeds from sales of mortgage investments. Other sources of liquidity include proceeds from the offering of common stock, preferred stock, debt securities, or other securities registered pursuant to our effective shelf registration statement filed with the Securities and Exchange Commission (“SEC”).

Liquidity, or ready access to funds, is essential to our business. Perceived liquidity issues may affect our counterparties’ willingness to engage in transactions with us. Our liquidity could be impaired due to circumstances that we may be unable to control, such as a general market disruption or an operational problem that affects us or third parties. Further, our ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time. If we cannot obtain funding from third parties our results of operations could be negatively impacted.

As of December 31, 2019, our debt-to-equity leverage ratio was 11.2 to 1 measured as the ratio of the sum of our total debt to our shareholders’ equity as reported on our consolidated balance sheet. In evaluating our liquidity and leverage ratios, we also monitor our “at risk” short-term financing to investable capital ratio. Our “at risk” short-term financing to investable capital ratio is measured as the ratio of the sum of our short-term secured financing (i.e. repurchase agreement financing), net payable or receivable for unsettled sales of securities and net contractual forward price of our TBA commitments less our cash and cash equivalents compared to our investable capital. Our investable capital is calculated as the sum of our stockholders’ equity and long-term unsecured debt. As of December 31, 2019, our “at risk” short-term secured financing to investable capital ratio was 8.7 to 1.

### Cash Flows

As of December 31, 2019, our cash and cash equivalents totaled \$19.6 million representing a net decrease of \$7.1 million from \$26.7 million as of December 31, 2018. Cash provided by operating activities of \$46.5 million during 2019 was attributable primarily to net interest income less our general and administrative expenses. Cash provided by investing activities of \$53.5 million during 2019 relates primarily to proceeds from sales and principal receipts on our agency MBS, partially offset by purchases of agency MBS and mortgage credit investments and net payments for settlements and deposits for margin on our interest rate derivative instruments. Cash used in financing activities of \$107.1 million during 2019 relates primarily to net repayments of repurchase agreements used to finance a portion of our mortgage investment portfolio and dividend payments to stockholders, partially offset by proceeds received from issuances of common and preferred stock.

### Sources of Funding

We believe that our existing cash balances, net investments in mortgage investments, cash flows from operations, borrowing capacity, and other sources of liquidity will be sufficient to meet our cash requirements for at least the next twelve months. We may, however, seek debt or equity financings, in public or private transactions, to provide capital for corporate purposes and/or strategic business opportunities, including possible acquisitions, joint ventures, alliances or other business arrangements which could require substantial capital outlays. Our policy is to evaluate strategic business opportunities, including acquisitions and divestitures, as they arise. There can be no assurance that we will be able to generate sufficient funds from future operations, or raise sufficient debt or equity on acceptable terms, to take advantage of investment opportunities that become available. Should our needs ever exceed these sources of liquidity, we believe that substantially most of our investments could be sold, in most circumstances, to provide cash. However, we may be required to sell our assets in such instances at depressed prices.

As of December 31, 2019, liquid assets consisted primarily of cash and cash equivalents of \$19.6 million, unencumbered agency MBS of \$98.4 million at fair value and unencumbered non-agency MBS of \$2.7 million at fair value. Cash equivalents consist primarily of money market funds invested in debt obligations of the U.S. government.

### Debt Capital

#### Long-Term Unsecured Debt

As of December 31, 2019, we had \$74.3 million of total long-term debt, net of unamortized debt issuance costs of \$1.0 million. Our trust preferred debt with a principal amount of \$15.0 million outstanding as of December 31, 2019 accrue and require the payment of interest quarterly at three-month LIBOR plus 2.25% to 3.00% and mature between 2033 and 2035. Our 6.625% Senior Notes due 2023 with a principal amount of \$25.0 million outstanding as of December 31, 2019 accrue and require payment of interest quarterly at an annual rate of 6.625% and mature on May 1, 2023. Our 6.75% Senior Notes due 2025 with a principal amount of \$35.3 million outstanding as of December 31, 2019 accrue and require payment of interest quarterly at an annual rate of 6.75% and mature on March 15, 2025.

## *Repurchase Agreements*

We have short-term financing facilities that are structured as repurchase agreements with various financial institutions to fund our investments in mortgage investments. We have obtained, and believe we will be able to continue to obtain, short-term financing in amounts and at interest rates consistent with our financing objectives. Funding for mortgage investments through repurchase agreements continues to be available to us at rates we consider to be attractive from multiple counterparties.

Our repurchase agreements include provisions contained in the standard master repurchase agreement as published by the Securities Industry and Financial Markets Association (“SIFMA”) and may be amended and supplemented in accordance with industry standards for repurchase facilities. Certain of our repurchase agreements include financial covenants, with which the failure to comply would constitute an event of default under the applicable repurchase agreement. Similarly, each repurchase agreement includes events of insolvency and events of default on other indebtedness as similar financial covenants. As provided in the standard master repurchase agreement as typically amended, upon the occurrence of an event of default or termination, the applicable counterparty has the option to terminate all repurchase transactions under such counterparty’s repurchase agreement and to demand immediate payment of any amount due from us to the counterparty.

Under our repurchase agreements, we may be required to pledge additional assets to our repurchase agreement counterparties in the event the estimated fair value of the existing pledged collateral under such agreements declines and such lenders demand additional collateral (commonly referred to as a “margin call”), which may take the form of additional securities or cash. Margin calls on repurchase agreements collateralized by our mortgage investments primarily result from events such as declines in the value of the underlying mortgage collateral caused by factors such as rising interest rates or prepayments. Our repurchase agreements generally provide that valuations for mortgage investments securing our repurchase agreements are to be obtained from a generally recognized source agreed to by both parties. However, in certain circumstances and under certain of our repurchase agreements, our lenders have the sole discretion to determine the value of the mortgage investments securing our repurchase agreements. In such instances, our lenders are required to act in good faith in making determinations of value. Our repurchase agreements generally provide that in the event of a margin call, we must provide additional securities or cash on the same business day that the margin call is made if the lender provides us notice prior to the margin notice deadline on such day.

To date, we have not had any margin calls on our repurchase agreements that we were not able to satisfy with either cash or additional pledged collateral. However, should we encounter increases in interest rates or prepayments, margin calls on our repurchase agreements could result in a material adverse change in our liquidity position.

Our repurchase agreement counterparties apply a “haircut” to the value of the pledged collateral, which means the collateral is valued, for the purposes of the repurchase agreement transaction, at less than fair value. Upon the renewal of a repurchase agreement financing at maturity, a lender could increase the “haircut” percentage applied to the value of the pledged collateral, thus reducing our liquidity.

Our repurchase agreements generally mature within 30 to 60 days, but may have maturities as short as one day and as long as one year. In the event that market conditions are such that we are unable to continue to obtain repurchase agreement financing for our mortgage investments in amounts and at interest rates consistent with our financing objectives, we may liquidate such investments and may incur significant losses on any such sales of mortgage investments.



The following table provides information regarding our outstanding repurchase agreement borrowings as of dates and periods indicated (dollars in thousands):

	December 31, 2019	December 31, 2018
<b>Pledged with agency MBS:</b>		
Repurchase agreements outstanding	\$ 3,560,139	\$ 3,721,629
Agency MBS collateral, at fair value (1)	3,741,399	3,931,232
Net amount (2)	181,260	209,603
Weighted-average rate	2.10%	2.72%
Weighted-average term to maturity	23.7 days	17.3 days
<b>Pledged with non-agency MBS:</b>		
Repurchase agreements outstanding	\$ 21,098	\$ —
Non-agency MBS collateral, at fair value	30,747	—
Net amount (2)	9,649	—
Weighted-average rate	3.11%	—
Weighted-average term to maturity	8.1 days	—
<b>Total MBS:</b>		
Repurchase agreements outstanding	\$ 3,581,237	\$ 3,721,629
MBS collateral, at fair value (1)	3,772,146	3,931,232
Net amount (2)	190,909	209,603
Weighted-average rate	2.11%	2.72%
Weighted-average term to maturity	23.6 days	17.3 days

- (1) As of December 31, 2019, includes \$71,284 at sale price of unsettled agency MBS sale commitments which is included in the line item “sold securities receivable” in the accompanying consolidated balance sheets. Net amount represents the value of collateral in excess of corresponding repurchase obligation. The amount of collateral at-risk is limited to the outstanding repurchase obligation and not the entire collateral balance.
- (2) Net amount represents the value of collateral in excess of corresponding repurchase obligation. The amount of collateral at-risk is limited to the outstanding repurchase obligation and not the entire collateral balance.

To limit our exposure to counterparty risk, we diversify our repurchase agreement funding across multiple counterparties and by counterparty region. As of December 31, 2019, we had outstanding repurchase agreement balances with 16 counterparties and have master repurchase agreements in place with a total of 18 counterparties located throughout North America, Europe and Asia. As of December 31, 2019, no more than 6.0% of our stockholders’ equity was at risk with any one counterparty, with the top five counterparties representing 25.9% of our stockholders’ equity. The table below includes a summary of our repurchase agreement funding by number of counterparties and counterparty region as of December 31, 2019:

	<u>Number of Counterparties</u>	<u>Percent of Repurchase Agreement Funding</u>
North America	10	63.0%
Europe	2	15.2%
Asia	4	21.8%
	<u>16</u>	<u>100.0%</u>

### **Derivative Instruments**

In the normal course of our operations, we are a party to financial instruments that are accounted for as derivative financial instruments including (i) interest rate hedging instruments such as interest rate swaps, U.S. Treasury note futures, put and call options on U.S. Treasury note futures, Eurodollar futures, interest rate swap futures and options on agency MBS, and (ii) derivative instruments that economically serve as investments such as TBA purchase and sale commitments.

#### *Interest Rate Hedging Instruments*

We exchange cash variation margin with the counterparties to our interest rate hedging instruments at least on a daily basis based upon daily changes in fair value as measured by the central clearinghouse through which those derivatives are cleared. In addition, the central clearinghouse requires market participants to deposit and maintain an “initial margin” amount which is determined by the clearinghouse and is generally intended to be set at a level sufficient to protect the clearinghouse from the maximum estimated single-day price movement in that market participant’s contracts. However, the futures commission merchants (“FCMs”) through which we conduct trading of our cleared and exchanged-traded hedging instruments may require incremental initial

margin in excess of the clearinghouse's requirement. The clearing exchanges have the sole discretion to determine the value of our hedging instruments for the purpose of setting initial and variation margin requirements or otherwise. In the event of a margin call, we must generally provide additional collateral on the same business day. To date, we have not had any margin calls on our hedging agreements that we were not able to satisfy. However, if we encounter significant decreases in long-term interest rates, margin calls on our hedging agreements could result in a material adverse change in our liquidity position.

As of December 31, 2019, we had outstanding interest rate swaps with the following aggregate notional amount and corresponding initial margin held in collateral deposit with the custodian (in thousands):

	December 31, 2019	
	Notional Amount	Collateral Deposit
Interest rate swaps	\$ 2,985,000	\$ 37,122

The FCMs through which we conduct trading of our hedging instruments may limit their exposure to us (due to an inherent one business day lag in the variation margin exchange process) by applying a maximum "ceiling" on their level of risk, either overall and/or by instrument type. The FCMs generally use the amount of initial margin that we have posted with them as a measure of their level of risk exposure to us. We currently have FCM relationships with four large financial institutions. To date, among our four FCM arrangements, we have had sufficient excess capacity above and beyond what we believe to be a sufficient and appropriate hedge position. However, if our FCMs substantially lowered their risk exposure thresholds, we could experience a material adverse change in our liquidity position and our ability to hedge appropriately.

#### *TBA Dollar Roll Transactions*

TBA dollar roll transactions represent a form of off-balance sheet financing accounted for as derivative instruments. In a TBA dollar roll transaction, we do not intend to take physical delivery of the underlying agency MBS and will generally enter into an offsetting position and net settle the paired-off positions in cash. However, under certain market conditions, it may be uneconomical for us to roll our TBA contracts into future months and we may need to take or make physical delivery of the underlying securities. If we were required to take physical delivery to settle a long TBA contract, we would have to fund our total purchase commitment with cash or other financing sources and our liquidity position could be negatively impacted.

Our TBA commitments and our commitments to purchase and sell specified agency MBS are subject to master securities forward transaction agreements published by SIFMA as well as supplemental terms and conditions with each counterparty. Under the terms of these agreements, we may be required to pledge collateral to our counterparty in the event the fair value of our agency MBS commitments decline and such counterparty demands collateral through a margin call. Margin calls on agency MBS commitments are generally caused by factors such as rising interest rates or prepayments. Our agency MBS commitments provide that valuations for our commitments and any pledged collateral are to be obtained from a generally recognized source agreed to by both parties. However, in certain circumstances, our counterparties have the sole discretion to determine the value of the agency MBS commitment and any pledged collateral. In such instances, our counterparties are required to act in good faith in making determinations of value. In the event of a margin call, we must generally provide additional collateral on the same business day.

### **Equity Capital**

#### *Common Equity Distribution Agreements*

On February 22, 2017, we entered into separate common equity distribution agreements with equity sales agents JMP Securities LLC, FBR Capital Markets & Co., JonesTrading Institutional Services LLC and Ladenburg Thalmann & Co. Inc. pursuant to which we may offer and sell, from time to time, up to 6,000,000 shares of our Class A common stock. On August 10, 2018, we entered into separate amendments to the equity distribution agreements with equity sales agents JMP Securities LLC, B. Riley FBR, Inc. (formerly, FBR Capital Markets & Co.), JonesTrading Institutional Services LLC and Ladenburg Thalmann & Co. Inc. pursuant to which we may offer and sell, from time to time, up to 12,597,423 shares of our Class A common stock.

Pursuant to the common equity distribution agreements, shares of our common stock may be offered and sold through the equity sales agents in transactions that are deemed to be "at the market" offerings as defined in Rule 415 under the Securities Act of 1933, including sales made directly on the NYSE or sales made to or through a market maker other than on an exchange or, subject to the terms of a written notice from us, in privately negotiated transactions.

As of December 31, 2019, we had 11,302,160 shares of Class A common stock available for sale under the common equity distribution agreements.

### *Preferred Stock*

As of December 31, 2019, we had Series B Preferred Stock outstanding with a liquidation preference of \$8.9 million. The Series B Preferred Stock is publicly traded on the New York Stock Exchange under the ticker symbol "AI PrB." The Series B Preferred Stock has no stated maturity, is not subject to any sinking fund and will remain outstanding indefinitely unless repurchased or redeemed by us. Holders of Series B Preferred Stock have no voting rights, except under limited conditions and are entitled to receive a cumulative cash dividend at a rate of 7.00% per annum of their \$25.00 per share liquidation preference (equivalent to \$1.75 per annum per share). Shares of Series B Preferred Stock are redeemable at \$25.00 per share, plus accumulated and unpaid dividends (whether or not authorized or declared) exclusively at our option commencing on May 12, 2022 or earlier upon the occurrence of a change in control. Dividends are payable quarterly in arrears on the 30th day of each December, March, June and September, when and as declared. We have declared and paid all required quarterly dividends on our Series B Preferred Stock to date.

As of December 31, 2019, we had Series C Preferred Stock outstanding with a liquidation preference of \$30.0 million. The Series C Preferred Stock is publicly traded on the New York Stock Exchange under the ticker symbol "AI PrC." The Series C Preferred Stock has no stated maturity, is not subject to any sinking fund and will remain outstanding indefinitely unless repurchased or redeemed by us. Holders of Series C Preferred Stock have no voting rights except under limited conditions and will be entitled to receive cumulative cash dividends (i) from and including the original issue date to, but excluding, March 30, 2024 at a fixed rate equal to 8.250% per annum of the \$25.00 per share liquidation preference (equivalent to \$2.0625 per annum per share) and (ii) from and including March 30, 2024, at a floating rate equal to three-month LIBOR plus a spread of 5.664% per annum. Shares of Series C Preferred Stock are redeemable at \$25.00 per share, plus accumulated and unpaid dividends (whether or not authorized or declared) exclusively at our option commencing on March 30, 2024 or earlier upon the occurrence of a change in control or under circumstances where it is necessary to preserve our qualification as a REIT. Under certain circumstances upon a change of control, the Series C Preferred Stock is convertible into shares of the Company's common stock. Dividends will be payable quarterly in arrears on the 30th day of March, June, September and December of each year, when and as declared. We have declared and paid all required quarterly dividends on our Series C Preferred Stock to date.

### *Preferred Equity Distribution Agreement*

On May 16, 2017, we entered into an equity distribution agreement with JonesTrading Institutional Services LLC, pursuant to which we may offer and sell, from time to time, up to 1,865,000 shares of our Series B Preferred Stock. On March 21, 2019, we entered into an amended and restated equity distribution agreement with JonesTrading Institutional Services LLC, B. Riley FBR, Inc., Compass Point Research and Trading, LLC and Ladenburg Thalmann & Co. Inc., pursuant to which we may offer and sell, from time to time, up to 1,647,370 shares of our Series B Preferred Stock. Pursuant to the Series B preferred equity distribution agreement, shares of our Series B Preferred stock may be offered and sold through the preferred equity sales agents in transactions that are deemed to be "at the market" offerings as defined in Rule 415 under the Securities Act of 1933, including sales made directly on the NYSE or sales made to or through a market maker other than on an exchange or, subject to the terms of a written notice from us, in privately negotiated transactions.

As of December 31, 2019, we had 1,645,961 shares of Series B Preferred stock available for sale under the Series B preferred equity distribution agreement.

### *Common Share Repurchase Program*

Our Board of Directors authorized the Repurchase Program pursuant to which we may repurchase up to 2.0 million shares of our Class A common stock. As of December 31, 2019, 1,951,305 shares of Class A common stock remain available for repurchase under the repurchase program.

### *REIT Distribution Requirements*

Commencing with our taxable year ending December 31, 2019, we intend to elect to be taxed as a REIT under the Internal Revenue Code. As a REIT, we are required to distribute annually 90% of our REIT taxable income (subject to certain adjustments) to our shareholders. So long as we continue to qualify as a REIT, we will generally not be subject to U.S. Federal or state corporate income taxes on our taxable income that we distribute to our shareholders on a timely basis. At present, it is our intention to distribute 100% of our taxable income, although we will not be required to do so. We intend to make distributions of our taxable income within the time limits prescribed by the Internal Revenue Code, which may extend into the subsequent taxable year.

## Contractual Obligations

We have contractual obligations to make future payments in connection with long-term unsecured debt and non-cancelable lease agreements and other contractual commitments. The following table sets forth these contractual obligations by fiscal year as of December 31, 2019 (in thousands):

	2020	2021	2022	2023	2024	Thereafter	Total
Long-term debt maturities	\$ —	\$ —	\$ —	\$ 25,000	\$ —	\$ 50,300	\$ 75,300
Interest on long-term debt (1)	4,750	4,750	4,750	3,922	3,094	7,361	28,627
Minimum rental commitments	52	65	55	—	—	—	172
	<u>\$ 4,802</u>	<u>\$ 4,815</u>	<u>\$ 4,805</u>	<u>\$ 28,922</u>	<u>\$ 3,094</u>	<u>\$ 57,661</u>	<u>\$ 104,099</u>

- (1) Includes interest on (i) \$25.0 million of Senior Notes due 2023 with a fixed annual interest rate of 6.625% that will mature on May 1, 2023 and (ii) \$35.3 million of Senior Notes due 2025 with a fixed annual interest rate of 6.75% that will mature on March 15, 2025. Also includes interest on \$15.0 million of trust preferred debt with variable interest rates indexed to three-month LIBOR and reset quarterly. Interest on trust preferred debt is based upon a weighted-average interest rate of 4.74%, which represents the weighted-average contractual interest rate in effect as of December 31, 2019. The trust preferred debt will mature beginning in October 2033 through July 2035.

## Off-Balance Sheet Arrangements and Other Commitments

As of December 31, 2019, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance, or special purpose or variable interest entities (“VIEs”), established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Our economic interests held in unconsolidated VIEs are limited in nature to those of a passive holder of MBS issued by a securitization trust. As of December 31, 2019, we had not consolidated for financial reporting purposes any securitization trusts as we do not have the power to direct the activities that most significantly impact the economic performance of such entities. Further, as of December 31, 2019, we had not guaranteed any obligations of unconsolidated entities or entered into any commitment or intent to provide funding to any such entities. See Note 15 to our consolidated financial statements under “Item 8 - Financial Statements and Supplementary Data.”

## Critical Accounting Estimates

The preparation of financial statements in accordance with GAAP requires the Company to make estimates and assumptions that affect amounts reported in the consolidated financial statements. Although the Company bases these estimates and assumptions on historical experience and all other information available as of the time that the financial statements are prepared, such estimates frequently require management to exercise significant subjective judgment about matters that are inherently uncertain. Actual results may differ from these estimates, which could have a significant and potentially adverse effect on our financial condition, results of operations, and cash flows. A summary of our significant accounting policies is included in “Note 3. Summary of Significant Accounting Policies” in the Notes to Consolidated Financial Statements.

Our most critical accounting estimates, which are those accounting estimates that require the highest degree of management judgment due to the inherent level of estimation uncertainty, relate to the measurement of the fair value of our investments in mortgage investments and income taxes.

## Fair Value of Investments in MBS

Inputs to fair value measurements of the Company’s investments in MBS include price estimates obtained from third-party pricing services. In determining fair value, third-party pricing services use a market approach. The inputs used in the fair value measurements performed by the third-party pricing services are based upon readily observable transactions for securities with similar characteristics (such as issuer/guarantor, coupon rate, stated maturity, and collateral pool characteristics) occurring on the measurement date. The Company makes inquiries of the third party pricing sources to understand the significant inputs and assumptions used to determine prices. The Company reviews the various third-party fair value estimates and performs procedures to validate their reasonableness, including comparison to recent trading activity for similar securities and an overall review for consistency with market conditions observed as of the measurement date. Changes in the market environment that may occur over the holding period of our MBS investments may cause the gains or losses that are ultimately realized to differ from those currently recognized in our consolidated financial statements based upon their current valuations.

## Recently Issued Accounting Pronouncements

Refer to “Note 3. Summary of Significant Accounting Policies” in the Notes to Consolidated Financial Statements for a summary of recently issued accounting pronouncements and their effect on our consolidated financial statements.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the exposure to loss resulting from changes in market factors such as interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market risk sensitive instruments. The primary market risks that we are exposed to are interest rate risk, prepayment risk, extension risk, spread risk, credit risk, liquidity risk and regulatory risk. See “Item 1 - Business” in this Annual Report on Form 10-K for discussion of our risk management strategies related to these market risks. The following is additional information regarding certain of these market risks.

### *Interest Rate Risk*

We are exposed to interest rate risk in our MBS portfolio. Our investments in MBS are financed with short-term borrowing facilities such as repurchase agreements, which are interest rate sensitive financial instruments. Our exposure to interest rate risk fluctuates based upon changes in the level and volatility of interest rates, mortgage prepayments, and in the shape and slope of the yield curve, among other factors. Through the use of interest rate hedging instruments, we attempt to economically hedge a portion of our exposure to changes, attributable to changes in benchmark interest rates, in MBS fair values and future interest cash flows on our short-term financing arrangements. Our primary interest rate hedging instruments include interest rate swaps as well as U.S. Treasury note futures, options on U.S. Treasury note futures, and options on agency MBS. Historically, we have also utilized Eurodollar futures and interest rate swap futures.

Changes in both short- and long-term interest rates affect us in several ways, including our financial position. As interest rates increase, the fair value of fixed-rate MBS may be expected to decline, prepayment rates may be expected to decrease and duration may be expected to extend. However, an increase in interest rates results in an increase in the fair value of our interest rate hedging instruments. Conversely, if interest rates decline, the fair value of fixed-rate MBS is generally expected to increase while the fair value of our interest rate hedging instruments is expected to decline.

The tables that follow illustrate the estimated change in fair value for our current investments in MBS and derivative instruments under several hypothetical scenarios of interest rate movements. For the purposes of this illustration, interest rates are defined by the U.S. Treasury yield curve. Changes in fair value are measured as percentage changes from their respective fair values presented in the column labeled “Value.” Our estimate of the change in the fair value of MBS is based upon the same assumptions we use to manage the impact of interest rates on the portfolio. The interest rate sensitivity of our MBS and TBA commitments is derived from The Yield Book, a third-party model. Actual results could differ significantly from these estimates. The effective durations are based on observed fair value changes, as well as our own estimate of the effect of interest rate changes on the fair value of the investments, including assumptions regarding prepayments based, in part, on age and interest rate of the mortgages underlying the MBS, prior exposure to refinancing opportunities, and an overall analysis of historical prepayment patterns under a variety of historical interest rate conditions.

The interest rate sensitivity analyses illustrated by the tables that follow have certain limitations, most notably the following:

- The 50 and 100 basis point upward and downward shocks to interest rates that are applied in the analyses represent parallel shocks to the forward yield curve. The analyses do not consider the sensitivity of stockholders’ equity to changes in the shape or slope of the forward yield curve.
- The analyses assume that spreads remain constant and, therefore, do not reflect an estimate of the impact that changes in spreads would have on the value of our MBS investments or our LIBOR-based derivative instruments, such as our interest rate swap agreements.
- The analyses assume a static portfolio and do not reflect activities and strategic actions that management may take in the future to manage interest rate risk in response to significant changes in interest rates or other market conditions.

These analyses are not intended to provide a precise forecast. Actual results could differ materially from these estimates (dollars in thousands, except per share amounts).

	December 31, 2019		
	Value	Value with 50 Basis Point Increase in Interest Rates	Value with 50 Basis Point Decrease in Interest Rates
Agency MBS	\$ 3,768,496	\$ 3,692,243	\$ 3,821,569
Non-agency MBS	33,501	32,640	34,392
Interest rate swaps	1,409	50,942	(48,128)
Equity available to common stock	288,397	260,819	292,825
Book value per common share	\$ 7.86	\$ 7.11	\$ 7.98
Book value per common share percent change		-9.56%	1.54%

	December 31, 2019		
	Value	Value with 100 Basis Point Increase in Interest Rates	Value with 100 Basis Point Decrease in Interest Rates
Agency MBS	\$ 3,768,496	\$ 3,596,772	\$ 3,855,860
Non-agency MBS	33,501	31,809	35,315
Interest rate swaps	1,409	100,478	(97,664)
Equity available to common stock	288,397	214,052	278,504
Book value per common share	\$ 7.86	\$ 5.83	\$ 7.59
Book value per common share percent change		-25.78%	-3.43%

### **Spread Risk**

Our investments in MBS expose us to “spread risk.” Spread risk, also known as “basis risk,” is the risk of an increase in the spread between market participants’ required rate of return (or “market yield”) on our MBS and prevailing benchmark interest rates, such as the U.S. Treasury or interest rate swap rates.

The spread risk inherent to our investments in agency MBS and the resulting fluctuations in fair value of these securities can occur independent of changes in prevailing benchmark interest rates and may relate to other factors impacting the mortgage and fixed income markets, such as actual or anticipated monetary policy actions by the U. S. Federal Reserve, liquidity, or changes in market participants’ required rates of return on different assets. While we use interest rate hedging instruments to attempt to mitigate the sensitivity of our net book value to changes in prevailing benchmark interest rates, such instruments are generally not designed to mitigate spread risk inherent to our investment in agency MBS. Consequently, the value of our agency MBS and, in turn, our net book value, could decline independent of changes in interest rates.

The tables that follow illustrate the estimated change in fair value for our investments in agency MBS and TBA commitments under several hypothetical scenarios of agency MBS spread movements. Changes in fair value are measured as percentage changes from their respective fair values presented in the column labeled “Value.” The sensitivity of our agency MBS and TBA commitments to changes in MBS spreads is derived from The Yield Book, a third-party model. The analysis to follow reflects an assumed spread duration for our investment in agency MBS of 5.2 years, which is a model-based assumption that is dependent upon the size and composition of our investment portfolio as well as economic conditions present as of December 31, 2019.

These analyses are not intended to provide a precise forecast. Actual results could differ materially from these estimates (dollars in thousands, except per share amounts).

	December 31, 2019		
	Value	Value with 10 Basis Point Increase in Agency MBS Spreads	Value with 10 Basis Point Decrease in Agency MBS Spreads
Agency MBS	\$ 3,768,496	\$ 3,749,061	\$ 3,787,931
TBA commitments	—	—	—
Equity available to common stock	288,397	268,962	307,832
Book value per common share	\$ 7.86	\$ 7.33	\$ 8.39
Book value per common share percent change		(6.74)%	6.74%

	December 31, 2019		
	Value	Value with 25 Basis Point Increase in Agency MBS Spreads	Value with 25 Basis Point Decrease in Agency MBS Spreads
Agency MBS	\$ 3,768,496	\$ 3,719,909	\$ 3,817,083
TBA commitments	—	—	—
Equity available to common stock	288,397	239,810	336,984
Book value per common share	\$ 7.86	\$ 6.54	\$ 9.18
Book value per common share percent change		(16.85)%	16.85%

### ***Credit Risk***

Unlike our agency MBS investments, our mortgage credit investments do not carry a credit guarantee from a GSE or government agency. Accordingly, our mortgage credit investments expose us to credit risk. Credit risk, sometimes referred to as non-performance or non-payment risk, is the risk that we will not receive, in full, the contractually required principal or interest cash flows stemming from our investments due to an underlying borrower's or issuer's default on their obligation. Upon a mortgage loan borrower's default, a foreclosure sale or other liquidation of the underlying mortgaged property will result in a credit loss if the liquidation proceeds fall short of the mortgage loan's unpaid principal balance and unpaid accrued interest.

We accept exposure to credit risk at levels we deem prudent within our overall investment strategy and our evaluation of the potential risk-adjusted returns. We attempt to manage our exposure to credit risk through prudent asset selection resulting from pre-acquisition due diligence, on-going performance monitoring subsequent to acquisition, and the disposition of assets for which we identify negative credit trends.

Some of our mortgage credit investments have credit enhancements that mitigate our exposure to the credit risk of the underlying mortgage loans. As of December 31, 2019, most of our investments in commercial MBS were "mezzanine" interests in an underlying commercial mortgage loan (or an underlying pool of commercial mortgage loans) that have structural credit enhancement in the form of subordinated interests. Credit losses incurred on the underlying mortgage loans collateralizing our investments in mezzanine commercial MBS are allocated on a "reverse sequential" basis. Accordingly, any credit losses realized on the underlying mortgage loans are first absorbed by the beneficial interests subordinate to our mezzanine commercial MBS, to the extent of their respective principal balance, prior to being allocated to our investments.

There is no guarantee that our attempts to manage our credit risk will be successful. We could experience substantial losses if the credit performance of the mortgage loans to which we are exposed falls short of our expectations.

### ***Inflation Risk***

Virtually all of our assets and liabilities are interest rate sensitive in nature. As a result, interest rates and other factors influence our performance far more than inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our financial statements are prepared in accordance with GAAP and our distributions are determined by our Board of Directors in its sole discretion pursuant to our variable dividend policy; in each case, our activities and balance sheet are measured with reference to fair value without considering inflation.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The information required by this item appears in a subsequent section of this report. See "Index to Arlington Asset Investment Corp. Consolidated Financial Statements" on page F-1.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

Our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on that evaluation, our CEO and CFO have concluded that as of December 31, 2019, our disclosure controls and procedures, as designed and implemented, (i) were effective in ensuring that information is made known to our management, including our CEO and CFO, by our officers and employees, as appropriate to allow timely decisions regarding required disclosure and (ii) were effective in ensuring that information the Company must disclose in its reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods prescribed by the SEC’s rules and forms.

### Management’s Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, the Company’s principal executive and principal financial officers and effected by the Company’s Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

The Company’s management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2019. In making this assessment, the Company’s management used criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in *Internal Control-Integrated Framework* (2013 version). Based on management’s assessment, the Company’s management has concluded that the Company’s internal control over financial reporting was effective as of December 31, 2019.

The effectiveness of the Company’s internal control over financial reporting was audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on page F-2 of this Annual Report on Form 10-K.

### Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## ITEM 9B. OTHER INFORMATION

None.



## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Part III, Item 10 of this Annual Report on Form 10-K will be provided in the Definitive Proxy Statement relating to our 2020 Annual Meeting of Shareholders (our 2020 Proxy Statement) and is hereby incorporated by reference.

### ITEM 11. EXECUTIVE COMPENSATION

The information required by Part III, Item 11 of this Annual Report on Form 10-K will be provided in our 2020 Proxy Statement and is hereby incorporated by reference.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Part III, Item 12 of this Annual Report on Form 10-K will be provided in our 2020 Proxy Statement and is hereby incorporated by reference.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Part III, Item 13 of this Annual Report on Form 10-K will be provided in our 2020 Proxy Statement and is hereby incorporated by reference.

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Part III, Item 14 of this Annual Report on Form 10-K will be provided in our 2020 Proxy Statement and is hereby incorporated by reference.

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) *Financial Statements*. The Arlington Asset Investment Corp. consolidated financial statements for the year ended December 31, 2019, included in “Item 8 - Financial Statements and Supplementary Data”, of this Annual Report on Form 10-K, are incorporated by reference into this Part IV, Item 15:

- Report of Independent Registered Public Accounting Firm (page F-2)
- Consolidated Balance Sheets as of December 31, 2019 and 2018 (page F-4)
- Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, 2018 and 2017 (page F-5)
- Consolidated Statements of Changes in Equity for the years ended December 31, 2019, 2018 and 2017 (page F-6)
- Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017 (page F-8)
- Notes to Consolidated Financial Statements (page F-9)

(2) *Financial Statement Schedules*. All schedules are omitted because they are not required or because the information is shown in the financial statements or notes thereto.

(3) *Exhibits*

Exhibit Number	Exhibit Title
3.01	<a href="#">Amended and Restated Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to the Registrant’s Quarterly Report on Form 10-Q filed on November 9, 2009).</a>
3.02	<a href="#">Articles of Amendment to the Amended and Restated Articles of Incorporation designating the shares of 7.00% Series B Cumulative Perpetual Redeemable Preferred Stock, \$0.01 par value per share (incorporated by reference to Exhibit 3.2 to the Company’s Registration Statement on Form 8-A filed on May 9, 2017).</a>

Exhibit Number	Exhibit Title
3.03	<a href="#">Articles of Amendment to the Amended and Restated Articles of Incorporation of Arlington Asset Investment Corp. designating the Company's 8.250% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, par value \$0.01 per share (incorporated by reference to Exhibit 3.3 to the Registrant's Registration Statement on Form 8-A filed on March 11, 2019).</a>
3.04	<a href="#">Articles of Amendment to the Amended and Restated Articles of Incorporation of Arlington Asset Investment Corp. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 25, 2019).</a>
3.05	<a href="#">Amended and Restated Bylaws, as amended (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on July 28, 2011).</a>
3.06	<a href="#">Amendment No. 1 to the Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on February 4, 2015).</a>
3.07	<a href="#">Amendment No. 2 to the Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on October 26, 2016).</a>
3.08	<a href="#">Amendment No. 3 to the Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on January 17, 2019).</a>
3.09	<a href="#">Amendment No. 4 to the Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on December 13, 2019).</a>
4.01	<a href="#">Indenture governing the Senior Debt Securities by and between the Company and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3 (File No. 333-235885) filed on January 10, 2020).</a>
4.02	<a href="#">Indenture governing the Subordinated Debt Securities by and between the Company and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-3 (File No. 333-235885) filed on January 10, 2020).</a>
4.03	<a href="#">Indenture dated as of May 1, 2013 between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on May 1, 2013).</a>
4.04	<a href="#">First Supplemental Indenture dated as of May 1, 2013 between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed on May 1, 2013).</a>
4.05	<a href="#">Form of Senior Note (incorporated by reference to Exhibit 4.6 to the Company's Registration Statement on Form S-3 (File No. 333-235885) filed on January 10, 2020).</a>
4.06	<a href="#">Form of Subordinated Note (incorporated by reference to Exhibit 4.7 to the Company's Registration Statement on Form S-3 (File No. 333-235885) filed on January 10, 2020).</a>
4.07	<a href="#">Form of 6.625% Senior Notes due 2023 (incorporated by reference to Exhibit 4.3 to Current Report on Form 8-K filed by the Company on May 1, 2013).</a>
4.08	<a href="#">Form of Certificate for Class A common stock (incorporated by reference to Exhibit 4.01 of the Annual Report on Form 10-K filed with the SEC on February 24, 2010).</a>
4.09	<a href="#">Shareholder Rights Agreement, dated June 5, 2009 (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed with the SEC on June 5, 2009).</a>
4.10	<a href="#">First Amendment to Shareholder Rights Agreement, dated as of April 13, 2018 (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on April 13, 2018).</a>
4.11	<a href="#">Second Supplemental Indenture, dated as of March 18, 2015, between the Company, Wells Fargo Bank, National Association, as Trustee and The Bank of New York Mellon, as Series Trustee (incorporated by reference to Exhibit 4.3 to the Company's Form 8-A filed on March 18, 2015).</a>
4.12	<a href="#">Form of 6.750% Notes due 2025 (incorporated by reference to Exhibit 4.3 to the Current Report on Form 8-K filed by the Company on March 17, 2015).</a>
4.13	<a href="#">Form of specimen certificate representing the shares of 7.00% Series B Perpetual Redeemable Preferred Stock (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form 8-A filed on May 9, 2017).</a>
4.14	<a href="#">Form of specimen certificate representing the shares of 8.250% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form 8-A filed on March 11, 2019).</a>
4.15	<a href="#">Description of Registrant's Securities.†</a>
10.01	<a href="#">Friedman, Billings, Ramsey Group, Inc. 2004 Long-Term Incentive Plan (incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement on Schedule 14A filed on April 29, 2004).*</a>
10.02	<a href="#">Friedman, Billings, Ramsey Group, Inc. 1997 Stock and Annual Incentive Plan (incorporated by reference to Exhibit 10.06 to Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-39107) filed by Friedman, Billings, Ramsey Group, Inc. on December 19, 1997).*</a>
10.03	<a href="#">Friedman, Billings, Ramsey Group, Inc. Non-Employee Director Stock Compensation Plan (incorporated by reference to Exhibit 10.07 to Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-39107) filed by Friedman, Billings, Ramsey Group, Inc. on December 19, 1997).*</a>
10.04	<a href="#">Friedman, Billings, Ramsey Group, Inc. Amended and Restated Non-Employee Director Stock Compensation Plan (incorporated by reference to Exhibit 10.04 to the Registrant's Annual Report on Form 10-K filed on February 23, 2012).*</a>
10.05	<a href="#">Arlington Asset Investment Corp. 2011 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 6, 2011).*</a>

Exhibit Number	Exhibit Title
10.06	<a href="#">Arlington Asset Investment Corp. 2014 Long-Term Incentive Plan (incorporated by reference to the Registrant's Registration Statement on Form S-8 filed on July 15, 2014).</a> *
10.07	<a href="#">Form of Restricted Stock Unit Agreement under Arlington Asset Investment Corp. 2014 Long-Term Incentive Plan (incorporated by reference to the Registrant's Registration Statement on Form S-8 filed on July 15, 2014).</a> *
10.08	<a href="#">Form of Restricted Stock Award Agreement under Arlington Asset Investment Corp. 2014 Long-Term Incentive Plan (incorporated by reference to the Registrant's Registration Statement on Form S-8 filed on July 15, 2014).</a> *
10.09	<a href="#">Form of Performance Share Unit Award Agreement under Arlington Asset Investment Corp. 2014 Long-Term Incentive Plan (incorporated by reference to the Registrant's Registration Statement on Form S-8 filed on July 15, 2014).</a> *
10.10	<a href="#">Form of Change in Control Continuity Agreement (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 27, 2017).</a> *
10.11	<a href="#">Form of Indemnification Agreement (incorporated by reference to Exhibit 10.08 to the Registrant's Annual Report on Form 10-K, filed on February 23, 2012).</a> *
10.12	<a href="#">Equity Distribution Agreement, dated February 22, 2017, by and between the Company and JMP Securities LLC (incorporated by reference to Exhibit 1.1 to the Registrant's Current Report on Form 8-K filed on February 22, 2017).</a>
10.13	<a href="#">Equity Distribution Agreement, dated February 22, 2017, by and between the Company and FBR Capital Markets &amp; Co. (incorporated by reference to Exhibit 1.2 to the Registrant's Current Report on Form 8-K filed on February 22, 2017).</a>
10.14	<a href="#">Equity Distribution Agreement, dated February 22, 2017, by and between the Company and JonesTrading Institutional Services LLC (incorporated by reference to Exhibit 1.3 to the Registrant's Current Report on Form 8-K filed on February 22, 2017).</a>
10.15	<a href="#">Equity Distribution Agreement, dated February 22, 2017, by and between the Company and Ladenburg Thalmann &amp; Co. Inc. (incorporated by reference to Exhibit 1.4 to the Registrant's Current Report on Form 8-K filed on February 22, 2017).</a>
10.16	<a href="#">Amendment No. 1 to the Equity Distribution Agreement, dated August 10, 2018, by and between the Company and JMP Securities LLC (incorporated by reference to Exhibit 1.5 to the Registrant's Current Report on Form 8-K filed on August 10, 2018).</a>
10.17	<a href="#">Amendment No. 1 to the Equity Distribution Agreement, dated August 10, 2018, by and between the Company and B. Riley FBR, Inc. (incorporated by reference to Exhibit 1.6 to the Registrant's Current Report on Form 8-K filed on August 10, 2018).</a>
10.18	<a href="#">Amendment No. 1 to the Equity Distribution Agreement, dated August 10, 2018, by and between the Company and JonesTrading Institutional Services LLC (incorporated by reference to Exhibit 1.7 to the Registrant's Current Report on Form 8-K filed on August 10, 2018).</a>
10.19	<a href="#">Amendment No. 1 to the Equity Distribution Agreement, dated August 10, 2018, by and between the Company and Ladenburg Thalmann &amp; Co. Inc. (incorporated by reference to Exhibit 1.8 to the Registrant's Current Report on Form 8-K filed on August 10, 2018).</a>
10.20	<a href="#">Amended and Restated Equity Distribution Agreement, dated March 21, 2019, by and among the Company and JonesTrading Institutional Services LLC, B. Riley FBR, Inc., Compass Point Research &amp; Trading, LLC and Ladenburg Thalmann &amp; Co. Inc. (incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed on March 21, 2019).</a>
10.21	<a href="#">Retirement and Consulting Agreement dated June 6, 2019, by and between Arlington Asset Investment Corp. and Eric F. Billings (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 6, 2019).</a>
21.01	<a href="#">List of Subsidiaries of the Registrant.</a> †
23.01	<a href="#">Consent of PricewaterhouseCoopers LLP.</a> †
24.01	<a href="#">Power of Attorney (included on the signature page to this Annual Report on Form 10-K and incorporated by reference herein).</a> †
31.01	<a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a> †
31.02	<a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a> †
32.01	<a href="#">Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a> †
32.02	<a href="#">Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a> †
101.INS	INSTANCE DOCUMENT**
101.SCH	SCHEMA DOCUMENT**
101.CAL	CALCULATION LINKBASE DOCUMENT**
101.LAB	LABELS LINKBASE DOCUMENT**
101.PRE	PRESENTATION LINKBASE DOCUMENT**

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101.DEF	DEFINITION LINKBASE DOCUMENT**
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† Filed herewith.

\* Compensatory plan or arrangement.

\*\* Submitted electronically herewith. Attached as Exhibit 101 are the following materials from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at December 31, 2019 and December 31, 2018; (ii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, 2018 and 2017; (iii) Consolidated Statements of Changes in Equity for the years ended December 31, 2019, 2018 and 2017; and (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017.

**ITEM 16. FORM 10-K SUMMARY**

Not applicable.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### ARLINGTON ASSET INVESTMENT CORP.

Date: February 24, 2020

By: /s/ RICHARD E. KONZMANN

**Richard E. Konzmann**

**Executive Vice President, Chief Financial Officer and  
Treasurer**

## POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints J. Rock Tonkel, Jr. and Richard E. Konzmann and each of them as his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K for the fiscal year ended December 31, 2019, and to file the same, with all exhibits thereto, and any other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ J. ROCK TONKEL, JR.</u> <b>J. ROCK TONKEL, JR.</b>	President, Chief Executive Officer and Director (Principal Executive Officer)	February 24, 2020
<u>/s/ RICHARD E. KONZMANN</u> <b>RICHARD E. KONZMANN</b>	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)	February 24, 2020
<u>/s/ BENJAMIN J. STRICKLER</u> <b>BENJAMIN J. STRICKLER</b>	Vice President, Chief Accounting Officer and Controller (Principal Accounting Officer)	February 24, 2020
<u>/s/ DANIEL E. BERCE</u> <b>DANIEL E. BERCE</b>	Chairman of the Board	February 24, 2020
<u>/s/ DAVID W. FAEDER</u> <b>DAVID W. FAEDER</b>	Director	February 24, 2020
<u>/s/ MELINDA H. MCCLURE</u> <b>MELINDA H. MCCLURE</b>	Director	February 24, 2020
<u>/s/ RALPH S. MICHAEL III</u> <b>RALPH S. MICHAEL III</b>	Director	February 24, 2020
<u>/s/ ANTHONY P. NADER III</u> <b>ANTHONY P. NADER III</b>	Director	February 24, 2020

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<a href="#">Consolidated Balance Sheets as of December 31, 2019 and 2018</a>	F-4
<a href="#">Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, 2018 and 2017</a>	F-5
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To The Board of Directors and Shareholders of  
Arlington Asset Investment Corp.

***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Arlington Asset Investment Corp. and its subsidiaries (the “Company”) as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for each of the three years in the period ended December 31, 2019, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

***Basis for Opinions***

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

***Definition and Limitations of Internal Control over Financial Reporting***

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP  
McLean, VA

February 24, 2020

We have served as the Company's auditor since 2002.



ARLINGTON ASSET INVESTMENT CORP.

CONSOLIDATED BALANCE SHEETS  
(Dollars in thousands, except share amounts)

	December 31,	
	2019	2018
<b>ASSETS</b>		
Cash and cash equivalents	\$ 19,636	\$ 26,713
Interest receivable	10,663	13,349
Sold securities receivable	71,199	—
Agency mortgage-backed securities, at fair value	3,768,496	3,982,106
Non-agency mortgage-backed securities, at fair value	33,501	24
Mortgage loans, at fair value	45,000	—
Derivative assets, at fair value	1,417	438
Deposits	37,123	61,052
Other assets	13,079	15,768
<b>Total assets</b>	<b>\$ 4,000,114</b>	<b>\$ 4,099,450</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Repurchase agreements	\$ 3,581,237	\$ 3,721,629
Interest payable	4,666	4,646
Accrued compensation and benefits	3,626	3,732
Dividend payable	8,494	11,736
Derivative liabilities, at fair value	8	6,959
Other liabilities	507	2,200
Long-term unsecured debt	74,328	74,104
<b>Total liabilities</b>	<b>3,672,866</b>	<b>3,825,006</b>
<b>Commitments and contingencies (Note 12)</b>		
<b>Stockholders' Equity:</b>		
Series B Preferred stock, \$0.01 par value, 354,039 and 350,595 shares issued and outstanding, respectively (liquidation preference of \$8,851 and \$8,765, respectively)	8,270	8,245
Series C Preferred stock, \$0.01 par value, 1,200,000 and -0- shares issued and outstanding, respectively (liquidation preference of \$30,000 and \$-0-, respectively)	28,944	—
Class A common stock, \$0.01 par value, 450,000,000 shares authorized, 36,755,387 and 30,497,998 shares issued and outstanding, respectively	368	305
Additional paid-in capital	2,049,292	1,997,876
Accumulated deficit	(1,759,626)	(1,731,982)
<b>Total stockholders' equity</b>	<b>327,248</b>	<b>274,444</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 4,000,114</b>	<b>\$ 4,099,450</b>

The accompanying notes are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Dollars in thousands except per share amounts)

	Year Ended December 31,		
	2019	2018	2017
<b>Interest income</b>			
Agency mortgage-backed securities	\$ 122,227	\$ 130,258	\$ 120,968
Non-agency mortgage-backed securities	184	20	101
Mortgage loans	8	—	—
Other	1,059	675	179
Total interest income	<u>123,478</u>	<u>130,953</u>	<u>121,248</u>
<b>Interest expense</b>			
Short-term secured debt	92,200	79,812	46,648
Long-term unsecured debt	5,050	5,013	4,866
Total interest expense	<u>97,250</u>	<u>84,825</u>	<u>51,514</u>
Net interest income	<u>26,228</u>	<u>46,128</u>	<u>69,734</u>
<b>Investment advisory fee income</b>	332	—	—
<b>Investment gain (loss), net</b>			
Gain (loss) on trading investments, net	128,029	(114,522)	2,424
(Loss) gain from derivative instruments, net	(126,190)	(9,657)	3,224
Other, net	358	357	226
Total investment gain (loss), net	<u>2,197</u>	<u>(123,822)</u>	<u>5,874</u>
<b>General and administrative expenses</b>			
Compensation and benefits	10,194	8,329	13,203
Other general and administrative expenses	4,821	5,041	5,367
Total general and administrative expenses	<u>15,015</u>	<u>13,370</u>	<u>18,570</u>
<b>Income (loss) before income taxes</b>	13,742	(91,064)	57,038
Income tax provision	—	733	39,603
<b>Net income (loss)</b>	13,742	(91,797)	17,435
Dividend on preferred stock	(2,600)	(590)	(251)
<b>Net income (loss) available (attributable) to common stock</b>	<u>\$ 11,142</u>	<u>\$ (92,387)</u>	<u>\$ 17,184</u>
Basic earnings (loss) per common share	<u>\$ 0.31</u>	<u>\$ (3.18)</u>	<u>\$ 0.67</u>
Diluted earnings (loss) per common share	<u>\$ 0.31</u>	<u>\$ (3.18)</u>	<u>\$ 0.66</u>
<b>Weighted-average common shares outstanding (in thousands)</b>			
Basic	<u>35,709</u>	<u>29,052</u>	<u>25,649</u>
Diluted	<u>35,833</u>	<u>29,052</u>	<u>26,011</u>

The accompanying notes are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(Dollars in thousands)

	Series B Preferred Stock (#)	Series B Preferred Amount (\$)	Class A Common Stock (#)	Class A Amount (\$)	Class B Common Stock (#)	Class B Amount (\$)	Additional Paid-In Capital	Accumulated Deficit	Total
<b>Balances, December 31, 2016</b>	—	\$ —	23,607,111	\$ 236	20,256	\$ —	\$ 1,910,284	\$ (1,551,707)	\$ 358,813
Net income	—	—	—	—	—	—	—	17,435	17,435
Conversion of Class B common stock to Class A common stock	—	—	20,256	—	(20,256)	—	—	—	—
Issuance of Class A common stock	—	—	4,472,083	45	—	—	61,168	—	61,213
Issuance of Class A common stock under stock-based compensation plans	—	—	74,000	—	—	—	—	—	—
Issuance of preferred stock	303,291	7,108	—	—	—	—	—	—	7,108
Repurchase of Class A common stock under stock-based compensation plans	—	—	(32,729)	—	—	—	(437)	—	(437)
Stock-based compensation	—	—	—	—	—	—	3,926	—	3,926
Dividends declared	—	—	—	—	—	—	—	(61,741)	(61,741)
<b>Balances, December 31, 2017</b>	<u>303,291</u>	<u>\$ 7,108</u>	<u>28,140,721</u>	<u>\$ 281</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 1,974,941</u>	<u>\$ (1,596,013)</u>	<u>\$ 386,317</u>

	Series B Preferred Stock (#)	Series B Preferred Amount (\$)	Class A Common Stock (#)	Class A Amount (\$)	Additional Paid-In Capital	Accumulated Deficit	Total
<b>Balances, December 31, 2017</b>	<u>303,291</u>	<u>\$ 7,108</u>	<u>28,140,721</u>	<u>\$ 281</u>	<u>\$ 1,974,941</u>	<u>\$ (1,596,013)</u>	<u>\$ 386,317</u>
Net loss	—	—	—	—	—	(91,797)	(91,797)
Issuance of Class A common stock	—	—	2,226,557	23	22,303	—	22,326
Issuance of Class A common stock under stock-based compensation plans	—	—	164,585	1	123	—	124
Issuance of preferred stock	47,304	1,137	—	—	—	—	1,137
Repurchase of Class A common stock under stock-based compensation plans	—	—	(33,865)	—	(327)	—	(327)
Cumulative-effect of accounting change (see Note 10)	—	—	—	—	—	4,059	4,059
Stock-based compensation	—	—	—	—	836	—	836
Dividends declared	—	—	—	—	—	(48,231)	(48,231)
<b>Balances, December 31, 2018</b>	<u>350,595</u>	<u>\$ 8,245</u>	<u>30,497,998</u>	<u>\$ 305</u>	<u>\$ 1,997,876</u>	<u>\$ (1,731,982)</u>	<u>\$ 274,444</u>

The accompanying notes are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY – (continued)**  
(Dollars in thousands)

	Series B Preferred Stock (#)	Series B Preferred Amount (\$)	Series C Preferred Stock (#)	Series C Preferred Amount (\$)	Class A Common Stock (#)	Class A Amount (\$)	Additional Paid-In Capital	Accumulated Deficit	Total
<b>Balances, December 31, 2018</b>	350,595	\$ 8,245	—	\$ —	30,497,998	\$ 305	\$ 1,997,876	\$(1,731,982)	\$ 274,444
Net income	—	—	—	—	—	—	—	13,742	13,742
Issuance of Class A common stock	—	—	—	—	6,000,000	60	48,734	—	48,794
Issuance of Class A common stock under stock-based compensation plans	—	—	—	—	294,014	3	106	—	109
Issuance of preferred stock	3,444	25	1,200,000	28,944	—	—	—	—	28,969
Repurchase of Class A common stock under stock-based compensation plans	—	—	—	—	(36,625)	—	(204)	—	(204)
Stock-based compensation	—	—	—	—	—	—	2,780	—	2,780
Dividends declared	—	—	—	—	—	—	—	(41,386)	(41,386)
<b>Balances, December 31, 2019</b>	<u>354,039</u>	<u>\$ 8,270</u>	<u>1,200,000</u>	<u>\$ 28,944</u>	<u>36,755,387</u>	<u>\$ 368</u>	<u>\$ 2,049,292</u>	<u>\$(1,759,626)</u>	<u>\$ 327,248</u>

The accompanying notes are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollars in thousands)

	Year Ended December 31,		
	2019	2018	2017
<b>Cash flows from operating activities</b>			
Net income (loss)	\$ 13,742	\$ (91,797)	\$ 17,435
Adjustments to reconcile net income (loss) to net cash provided by operating activities			
Total investment (gain) loss, net	(2,197)	123,822	(5,874)
Net premium amortization on mortgage-backed securities	26,463	31,796	33,353
Deferred tax provision	—	733	38,897
Other	2,932	870	3,497
Changes in operating assets			
Interest receivable	2,686	(803)	(900)
Other assets	4,539	(116)	717
Changes in operating liabilities			
Interest payable and other liabilities	(1,494)	527	1,296
Accrued compensation and benefits	(106)	(1,283)	(391)
Net cash provided by operating activities	<u>46,565</u>	<u>63,749</u>	<u>88,030</u>
<b>Cash flows from investing activities</b>			
Purchases of non-agency mortgage-backed securities	(33,484)	—	—
Purchases of agency mortgage-backed securities	(4,303,811)	(2,945,759)	(3,137,435)
Purchases of mortgage loans	(45,000)	—	—
Proceeds from sales of non-agency mortgage-backed securities	—	—	1,268
Proceeds from sales of agency mortgage-backed securities	4,028,260	2,387,180	2,482,703
Receipt of principal payments on non-agency mortgage-backed securities	2	8	17
Receipt of principal payments on agency mortgage-backed securities	519,533	484,621	480,661
(Payments for) proceeds from derivatives and deposits, net	(112,027)	(8,712)	24,674
Other	31	21	432
Net cash provided by (used in) investing activities	<u>53,504</u>	<u>(82,641)</u>	<u>(147,680)</u>
<b>Cash flows from financing activities</b>			
(Repayments of) proceeds from repurchase agreements, net	(140,392)	54,448	18,079
Proceeds from issuance of common stock	48,796	22,326	61,213
Proceeds from issuance of preferred stock	28,970	1,137	7,108
Dividends paid	(44,520)	(53,920)	(59,930)
Net cash (used in) provided by financing activities	<u>(107,146)</u>	<u>23,991</u>	<u>26,470</u>
Net (decrease) increase in cash and cash equivalents	(7,077)	5,099	(33,180)
Cash and cash equivalents, beginning of year	26,713	21,614	54,794
Cash and cash equivalents, end of year	<u>\$ 19,636</u>	<u>\$ 26,713</u>	<u>\$ 21,614</u>
<b>Supplemental cash flow information</b>			
Cash payments for interest	\$ 97,006	\$ 84,373	\$ 50,306
Cash payments for taxes	\$ —	\$ 8	\$ 28
Cash receipt for refund of prior alternative minimum tax payments	\$ 4,566	\$ —	\$ —

The accompanying notes are an integral part of these consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Dollars in thousands, except per share amounts)****Note 1. Organization and Nature of Operations**

Arlington Asset Investment Corp. (“Arlington Asset”) and its consolidated subsidiaries (unless the context otherwise provides, collectively, the “Company”) is an investment firm that focuses on acquiring and holding a levered portfolio of mortgage investments generally consisting of agency mortgage-backed securities (“MBS”) and mortgage credit investments. The Company’s agency MBS include residential mortgage pass-through certificates for which the principal and interest payments are guaranteed by either a U.S. government sponsored enterprise (“GSE”), such as the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corporation (“Freddie Mac”), or by a U.S. government agency, such as the Government National Mortgage Association (“Ginnie Mae”). The Company’s mortgage credit investments may include investments in mortgage loans secured by either residential or commercial real property or MBS collateralized by such mortgage loans, which the Company refers to as non-agency MBS. The principal and interest of the Company’s mortgage credit investments are not guaranteed by a GSE or a U.S. government agency.

Arlington Asset is a Virginia corporation that is internally managed and does not have an external investment advisor.

**Note 2. Basis of Presentation**

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) and include the accounts of Arlington Asset and all other entities in which the Company has a controlling financial interest. All intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect amounts reported in the consolidated financial statements. Although the Company bases these estimates and assumptions on historical experience and all other reasonably available information that the Company believes to be relevant under the circumstances, such estimates frequently require management to exercise significant subjective judgment about matters that are inherently uncertain. Actual results may differ materially from these estimates.

Certain prior period amounts in the consolidated financial statements and the accompanying notes have been reclassified to conform to the current year’s presentation. These reclassifications had no impact on the previously reported net income, total assets or total liabilities.

**Note 3. Summary of Significant Accounting Policies*****Cash Equivalents***

Cash equivalents include demand deposits with banks, money market accounts and highly liquid investments with original maturities of three months or less. As of December 31, 2019 and 2018, approximately 97% and 99%, respectively, of the Company’s cash equivalents were invested in money market funds that invest primarily in U.S. Treasuries and other securities backed by the U.S. government.

***Investment Security Purchases and Sales***

Purchases and sales of investment securities are recorded on the settlement date of the transfer unless the trade qualifies as a “regular-way” trade and the associated commitment qualifies for an exemption from the accounting guidance applicable to derivative instruments. A regular-way trade is an investment security purchase or sale transaction that is expected to settle within the period of time following the trade date that is prevalent or traditional for that specific type of security. Any amounts payable or receivable for unsettled security trades are recorded as “sold securities receivable” or “purchased securities payable” in the consolidated balance sheets.

***Interest Income Recognition for Investments in Agency MBS***

The Company recognizes interest income for its investments in agency MBS by applying the “interest method” permitted by GAAP, whereby purchase premiums and discounts are amortized and accreted, respectively, as an adjustment to contractual interest income accrued at each security’s stated coupon rate. The interest method is applied at the individual security level based upon each security’s effective interest rate. The Company calculates each security’s effective interest rate at the time of purchase by solving for

the discount rate that equates the present value of that security's remaining contractual cash flows (assuming no principal prepayments) to its purchase price. Because each security's effective interest rate does not reflect an estimate of future prepayments, the Company refers to this manner of applying the interest method as the "contractual effective interest method." When applying the contractual effective interest method to its investments in agency MBS, as principal prepayments occur, a proportional amount of the unamortized premium or discount is recognized in interest income such that the contractual effective interest rate on the remaining security balance is unaffected.

#### **Interest Income Recognition for Investments in Non-Agency MBS**

The Company recognizes interest income for its investments in non-agency MBS by applying the prospective level-yield methodology required by GAAP for securitized financial assets that are either not of high credit quality at the time of acquisition or can be contractually prepaid or otherwise settled in such a way that the Company would not recover substantially all of its recorded investment. The amount of periodic interest income recognized is determined by applying the security's effective interest rate to its amortized cost basis (or "reference amount"). At the time of acquisition, the security's effective interest rate is calculated by solving for the single discount rate that equates the present value of the Company's best estimate of the amount and timing of the cash flows expected to be collected from the security to its purchase price. To prepare its best estimate of cash flows expected to be collected, the Company develops a number of assumptions about the future performance of the pool of mortgage loans that serve as collateral for its investment, including assumptions about the timing and amount of prepayments and credit losses.

In each subsequent quarterly reporting period, the amount and timing of cash flows expected to be collected from the security are re-estimated based upon current information and events. The following table provides a description of how periodic changes in the estimate of cash flows expected to be collected affect interest income recognition prospectively for investments in non-agency MBS:

#### **Effect on Interest Income Recognition for Investments in Non-Agency MBS:**

##### **Scenario:**

##### **A positive change in cash flows occurs.**

Actual cash flows exceed prior estimates and/or a positive change occurs in the estimate of expected remaining cash flows.

A revised effective interest rate is calculated and applied prospectively such that the positive change in cash flows is recognized as incremental interest income over the remaining life of the security.

##### **An adverse change in cash flows occurs.**

Actual cash flows fall short of prior estimates and/or an adverse change occurs in the estimate of expected remaining cash flows.

The amount of periodic interest income recognized over the remaining life of the security will be reduced accordingly. Specifically, if an adverse change in cash flows occurs for a security that is impaired (that is, its fair value is less than its reference amount), the reference amount to which the security's existing effective interest rate will be prospectively applied will be reduced to the present value of cash flows expected to be collected, discounted at the security's existing effective interest rate. If an adverse change in cash flows occurs for a security that is not impaired, the security's effective interest rate will be reduced accordingly and applied on a prospective basis.

#### **Earnings (Loss) Per Share**

Basic earnings (loss) per share includes no dilution and is computed by dividing net income or loss applicable to common stock by the weighted-average number of common shares outstanding for the respective period. Diluted earnings per share includes the impact of dilutive securities such as unvested shares of restricted stock and performance share units. The following table presents the computations of basic and diluted earnings (loss) per share for the periods indicated:

<b>(Shares in thousands)</b>	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Basic weighted-average common shares outstanding	35,709	29,052	25,649
Performance share units and unvested restricted stock	124	—	362
Diluted weighted-average common shares outstanding	35,833	29,052	26,011
Net income (loss) available (attributable) to common stock	\$ 11,142	\$ (92,387)	\$ 17,184
Basic earnings (loss) per common share	\$ 0.31	\$ (3.18)	\$ 0.67
Diluted earnings (loss) per common share	\$ 0.31	\$ (3.18)	\$ 0.66

The diluted loss per share for the year ended December 31, 2018 did not include the antidilutive effect of 216,238 shares of unvested shares of restricted stock and performance share units.

### Other Significant Accounting Policies

The Company's other significant accounting policies are described in the following notes:

Investments in agency MBS, subsequent measurement	Note 4
Investments in non-agency MBS, subsequent measurement	Note 5
Investments in mortgage loans, subsequent measurement	Note 6
Borrowings	Note 7
To-be-announced agency MBS transactions, including "dollar rolls"	Note 8
Derivative instruments	Note 8
Balance sheet offsetting	Note 9
Fair value measurements	Note 10
Income taxes	Note 11
Stock-based compensation	Note 14

### Recent Accounting Pronouncements

The following table provides a brief description of recently issued accounting pronouncements and their actual or expected effect on the Company's consolidated financial statements:

Standard	Description	Date of Adoption	Effect on the Consolidated Financial Statements
<b>Recently Adopted Accounting Guidance</b>			
Accounting Standards Update ("ASU") No. 2016-02, <i>Leases (Topic 842)</i>	This amendment replaces the existing lease accounting model with a revised model. The primary change effectuated by the revised lease accounting model is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases.	January 1, 2019	The primary impact of the adoption of ASU No. 2016-02 was the recognition of lease liabilities and associated right-of-use assets, as a component of "Other liabilities" and "Other assets," respectively, on the Company's consolidated balance sheets as of December 31, 2019. The adoption of ASU No. 2016-02 did not have an effect on the timing or amount of periodic lease expense recognized in net income. The adoption of ASU No. 2016-02 did not have a material effect on the Company's consolidated financial statements.
ASU No. 2017-08, <i>Premium Amortization of Purchased Callable Debt Securities (Subtopic 310-20)</i>	This amendment requires purchase premiums for investments in debt securities that are noncontingently callable by the issuer (at a fixed price and preset date) to be amortized to the earliest call date. Previously, purchase premiums for such investments were permitted to be amortized to the instrument's maturity date.	January 1, 2019	Investments in prepayable financial assets, such as residential MBS, for which the embedded call options are not held by the issuer are not within the scope of ASU No. 2017-08. Accordingly, the adoption of ASU No. 2017-08 did not have an effect on the Company's consolidated financial statements.



Standard	Description	Date of Adoption	Effect on the Consolidated Financial Statements
ASU No. 2017-12, <i>Targeted Improvements to Accounting for Hedging Activities (Topic 815)</i>	This update made several targeted amendments to existing GAAP with the objectives of facilitating (i) financial reporting that more closely reflects entities' risk management strategies and (ii) greater ease of understanding and interpreting the effects of hedge accounting on an entities' reported results.	January 1, 2019	Hedge accounting pursuant to GAAP is an elective, rather than a required, accounting model. The Company does not elect to apply hedge accounting. The adoption of ASU No. 2017-12 did not have an effect on the Company's consolidated financial statements.
<b>Recently Issued Accounting Guidance Not Yet Adopted</b>			
ASU No. 2016-13, <i>Financial Instruments - Credit Losses (Topic 606)</i>	<p>The amendments in this update require financial assets measured at amortized cost as well as available-for-sale debt securities to be measured for impairment on the basis of the net amount expected to be collected. Credit losses are to be recognized through an allowance for credit losses, which differs from the direct write-down of the amortized cost basis currently required for other-than-temporary impairments of investments in debt securities. This update also makes substantial changes to the manner in which interest income is to be recognized for financial assets acquired with a more-than-insignificant amount of credit deterioration since origination.</p> <p>This update will not affect the accounting for investments in debt securities or loans that are measured at fair value with changes in fair value recognized in current period earnings.</p>	January 1, 2020	As of December 31, 2019, all of the Company's investments in debt securities and loans are measured at fair value with changes in fair value recognized in current period earnings. Accordingly, the Company does not expect ASU No. 2016-13 to have a material impact on its consolidated financial statements.

#### Note 4. Investments in Agency MBS

The Company has elected to classify its investments in agency MBS as trading securities. Accordingly, the Company's investments in agency MBS are reported in the accompanying consolidated balance sheets at fair value. As of December 31, 2019 and 2018, the fair value of the Company's investments in agency MBS were \$3,768,496 and \$3,982,106, respectively. As of December 31, 2019 and 2018, all of the Company's investments in agency MBS represent undivided (or "pass-through") beneficial interests in specified pools of fixed-rate mortgage loans.

All periodic changes in the fair value of agency MBS that are not attributed to interest income are recognized as a component of "investment gain (loss), net" in the accompanying consolidated statements of comprehensive income. The following table provides additional information about the gains and losses recognized as a component of "investment gain (loss), net" in the Company's consolidated statements of comprehensive income for the periods indicated with respect to investments in agency MBS:

	Year Ended December 31,		
	2019	2018	2017
Net gains (losses) recognized in earnings for:			
Agency MBS still held at period end	\$ 37,851	\$ (59,676)	\$ (1,621)
Agency MBS sold during the period	90,330	(54,804)	3,987
Total	<u>\$ 128,181</u>	<u>\$ (114,480)</u>	<u>\$ 2,366</u>

The Company also invests in and finances fixed-rate agency MBS on a generic pool basis through sequential series of to-be-announced security transactions commonly referred to as "dollar rolls." Dollar rolls are accounted for as a sequential series of derivative instruments. Refer to "Note 8. Derivative Instruments" for further information about dollar rolls.

## Note 5. Investments in Non-Agency MBS

The Company has elected to classify its investments in non-agency MBS as trading securities. Accordingly, the Company's investments in non-agency MBS are reported in the accompanying consolidated balance sheets at fair value. As of December 31, 2019 and 2018, the fair value of the Company's investments in non-agency MBS were \$33,501 and \$24, respectively.

As of December 31, 2019, substantially all of the Company's investments in non-agency MBS represent beneficial interests in mortgages on commercial real property (commercial MBS or "CMBS"). The majority of the Company's investments in CMBS represent initial issuances of "mezzanine" interests in an underlying commercial mortgage loan (or an underlying pool of commercial mortgage loans). The underlying commercial mortgage loans generally have initial interest-only periods. After the initial interest-only period, the terms of the underlying mortgage loan may require the entire principal amount to be repaid in a lump sum at loan maturity (known as a "balloon" payment) or they may require principal to be repaid over an amortization period. The majority of the mortgage loans that serve as collateral for the Company's investments in CMBS carry prepayment penalties or yield maintenance provisions that are generally designed such that, in the event of prepayment, the investor is able to attain an investment yield comparable to that which would have been attained had the borrower made all contractual interest payments through the contractual maturity date of the loan.

Credit losses incurred on the underlying mortgage loans collateralizing the Company's investments in mezzanine CMBS are allocated on a "reverse sequential" basis. Accordingly, any credit losses realized on the underlying mortgage loans are first absorbed by the beneficial interests subordinate to the Company's CMBS, to the extent of their respective principal balance, prior to being allocated to Company's investments. Periodic interest accrues on each security's outstanding principal balance at its contractual coupon rate.

All periodic changes in the fair value of non-agency MBS that are not attributed to interest income are recognized as a component of "investment gain (loss), net" in the accompanying consolidated statements of comprehensive income. The following table provides additional information about the gains and losses recognized as a component of "investment gain (loss), net" in the Company's consolidated statements of comprehensive income for the periods indicated with respect to investments in non-agency MBS:

	Year Ended December 31,		
	2019	2018	2017
Net gains (losses) recognized in earnings for:			
Non-agency MBS still held at period end	\$ (152)	\$ (42)	\$ 58
Non-agency MBS sold during the period	—	—	—
Total	<u>\$ (152)</u>	<u>\$ (42)</u>	<u>\$ 58</u>

## Note 6. Investments in Mortgage Loans

On December 31, 2019, the Company acquired a \$45,000 mortgage loan secured by a first lien position in healthcare facilities. The mortgage loan bears interest at a quarterly floating note rate equal to one-month LIBOR plus 4.25% with a note rate floor of 6.25%. The maturity date of the loan is December 31, 2021 with a one-year extension available at the option of the borrower. The mortgage loan has an initial interest-only period of one year followed by principal amortization based upon a 30-year amortization schedule beginning in 2021 with the remaining principal balance due at loan maturity.

The Company recognizes interest income on its mortgage loan investment based upon the contractual note rate of the loan. The Company has elected to account for its mortgage loan investment at fair value on a recurring basis with periodic changes in fair value recognized as a component of "investment gain (loss), net" in the accompanying consolidated statements of comprehensive income.

## Note 7. Borrowings

### Repurchase Agreements

The Company finances the purchase of MBS through repurchase agreements, which are accounted for as collateralized borrowing arrangements. In a repurchase transaction, the Company sells MBS to a counterparty under a master repurchase agreement in exchange for cash and concurrently agrees to repurchase the same security at a future date in an amount equal to the cash initially exchanged plus an agreed-upon amount of interest. MBS sold under agreements to repurchase remain on the Company's consolidated balance sheets because the Company maintains effective control over such securities throughout the duration of the arrangement. Throughout the contractual term of a repurchase agreement, the Company recognizes a "repurchase agreement" liability on its

consolidated balance sheets to reflect the obligation to repay to the counterparty the proceeds received upon the initial transfer of the MBS. The difference between the proceeds received by the Company upon the initial transfer of the MBS and the contractually agreed-upon repurchase price is recognized as interest expense ratably over the term of the repurchase arrangement.

Amounts borrowed pursuant to repurchase agreements are equal in value to a specified percentage of the fair value of the pledged collateral. The Company retains beneficial ownership of the pledged collateral throughout the term of the repurchase agreement. The counterparty to the repurchase agreements may require that the Company pledge additional securities or cash as additional collateral to secure borrowings when the value of the collateral declines.

As of December 31, 2019 and 2018, the Company had no amount at risk with a single repurchase agreement counterparty or lender greater than 10% of equity. The following table provides information regarding the Company's outstanding repurchase agreement borrowings as of the dates indicated:

	December 31, 2019	December 31, 2018
<b>Pledged with agency MBS:</b>		
Repurchase agreements outstanding	\$ 3,560,139	\$ 3,721,629
Agency MBS collateral, at fair value (1)	3,741,399	3,931,232
Net amount (2)	181,260	209,603
Weighted-average rate	2.10%	2.72%
Weighted-average term to maturity	23.7 days	17.3 days
<b>Pledged with non-agency MBS:</b>		
Repurchase agreements outstanding	\$ 21,098	\$ —
Non-agency MBS collateral, at fair value	30,747	—
Net amount (2)	9,649	—
Weighted-average rate	3.11%	—
Weighted-average term to maturity	8.1 days	—
<b>Total MBS:</b>		
Repurchase agreements outstanding	\$ 3,581,237	\$ 3,721,629
MBS collateral, at fair value (1)	3,772,146	3,931,232
Net amount (2)	190,909	209,603
Weighted-average rate	2.11%	2.72%
Weighted-average term to maturity	23.6 days	17.3 days

(1) As of December 31, 2019, includes \$71,284 at sale price of unsettled agency MBS sale commitments which is included in the line item "sold securities receivable" in the accompanying consolidated balance sheets. Net amount represents the value of collateral in excess of corresponding repurchase obligation. The amount of collateral at-risk is limited to the outstanding repurchase obligation and not the entire collateral balance.

(2) Net amount represents the value of collateral in excess of corresponding repurchase obligation. The amount of collateral at-risk is limited to the outstanding repurchase obligation and not the entire collateral balance.

The following table provides information regarding the Company's outstanding repurchase agreement borrowings during the years ended December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Weighted-average outstanding balance	\$ 3,690,093	\$ 3,817,870
Weighted-average rate	2.46%	2.06%

## Long-Term Unsecured Debt

As of December 31, 2019 and 2018, the Company had \$74,328 and \$74,104, respectively, of outstanding long-term unsecured debentures, net of unamortized debt issuance costs of \$972 and \$1,196, respectively. The Company's long-term unsecured debentures consisted of the following as of the dates indicated:

	December 31, 2019			December 31, 2018		
	Senior Notes Due 2025	Senior Notes Due 2023	Trust Preferred Debt	Senior Notes Due 2025	Senior Notes Due 2023	Trust Preferred Debt
Outstanding Principal	\$ 35,300	\$ 25,000	\$ 15,000	\$ 35,300	\$ 25,000	\$ 15,000
Annual Interest Rate	6.75%	6.625%	LIBOR+ 2.25 - 3.00 %	6.75%	6.625%	LIBOR+ 2.25 - 3.00 %
Interest Payment Frequency	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
Weighted-Average Interest Rate	6.75%	6.625%	4.74%	6.75%	6.625%	5.19%
Maturity	March 15, 2025	May 1, 2023	2033 - 2035	March 15, 2025	May 1, 2023	2033 - 2035
Early Redemption Date	March 15, 2018	May 1, 2016	2008 - 2010	March 15, 2018	May 1, 2016	2008 - 2010

The Senior Notes due 2023 and the Senior Notes due 2025 are publicly traded on the New York Stock Exchange under the ticker symbols "AIW" and "AIC," respectively. The Senior Notes due 2023 and Senior Notes due 2025 may be redeemed in whole or in part at any time and from time to time at the Company's option at a redemption price equal to the principal amount plus accrued and unpaid interest. The indenture governing these Senior Notes contains certain covenants, including limitations on the Company's ability to merge or consolidate with other entities or sell or otherwise dispose of all or substantially all of the Company's assets.

### Note 8. Derivative Instruments

In the normal course of its operations, the Company is a party to financial instruments that are accounted for as derivative instruments. Derivative instruments are recorded at fair value as either "derivative assets" or "derivative liabilities" in the consolidated balance sheets, with all periodic changes in fair value reflected as a component of "investment gain (loss), net" in the consolidated statements of comprehensive income. Cash receipts or payments related to derivative instruments are classified as investing activities within the consolidated statements of cash flows.

#### Types and Uses of Derivative Instruments

##### Interest Rate Hedging Instruments

The Company is party to interest rate hedging instruments that are intended to economically hedge changes, attributable to changes in benchmark interest rates, in certain MBS fair values and future interest cash flows on the Company's short-term financing arrangements. Interest rate hedging instruments include centrally cleared interest rate swaps, exchange-traded instruments, such as U.S. Treasury note futures, Eurodollar futures, interest rate swap futures and options on futures, and non-exchange-traded instruments such as options on agency MBS. While the Company uses its interest rate hedging instruments to economically hedge a portion of its interest rate risk, it has not designated such contracts as hedging instruments for financial reporting purposes.

The Company exchanges cash "variation margin" with the counterparties to its interest rate hedging instruments at least on a daily basis based upon daily changes in fair value as measured by the Chicago Mercantile Exchange ("CME"), the central clearinghouse through which those instruments are cleared. In addition, the CME requires market participants to deposit and maintain an "initial margin" amount which is determined by the CME and is generally intended to be set at a level sufficient to protect the CME from the maximum estimated single-day price movement in that market participant's contracts. However, futures commission merchants may require "initial margin" in excess of the CME's requirement.

Receivables recognized for the right to reclaim cash initial margin posted in respect of interest rate hedging instruments are included in the line item "deposits" in the accompanying consolidated balance sheets.

The daily exchange of variation margin associated with a centrally cleared or exchange-traded hedging instrument is legally characterized as the daily settlement of the instrument itself, as opposed to a pledge of collateral. Accordingly, the Company accounts for the daily receipt or payment of variation margin associated with its interest rate swaps and futures as a direct reduction to the

carrying value of the derivative asset or liability, respectively. The carrying amount of interest rate swaps and futures reflected in the Company's consolidated balance sheets is equal to the unsettled fair value of such instruments; because variation margin is exchanged on a one-day lag, the unsettled fair value of such instruments generally represents the change in fair value that occurred on the last day of the reporting period.

#### *To-Be-Announced Agency MBS Transactions, Including "Dollar Rolls"*

In addition to interest rate hedging instruments that are used for interest rate risk management, the Company is a party to derivative instruments that economically serve as investments, such as forward commitments to purchase fixed-rate "pass-through" agency MBS on a non-specified pool basis, which are known as to-be-announced ("TBA") securities. A TBA security is a forward commitment for the purchase or sale of a fixed-rate agency MBS at a predetermined price, face amount, issuer, coupon, and stated maturity for settlement on an agreed upon future date. The specific agency MBS that will be delivered to satisfy the TBA trade is not known at the inception of the trade. The specific agency MBS to be delivered is determined 48 hours prior to the settlement date. The Company accounts for TBA securities as derivative instruments because the Company cannot assert that it is probable at inception and throughout the term of an individual TBA commitment that its settlement will result in physical delivery of the underlying agency MBS, or the individual TBA commitment will not settle in the shortest time period possible.

The Company's agency MBS investment portfolio includes net purchase (or "net long") positions in TBA securities, which are primarily the result of executing sequential series of "dollar roll" transactions. The Company executes dollar roll transactions as a means of investing in and financing non-specified fixed-rate agency MBS. Such transactions involve effectively delaying (or "rolling") the settlement of a forward purchase of a TBA agency MBS by entering into an offsetting sale with the same counterparty prior to the settlement date, net settling the "paired-off" positions in cash, and contemporaneously entering, with the same counterparty, another forward purchase of a TBA agency MBS of the same characteristics for a later settlement date. TBA securities purchased for a forward settlement month are generally priced at a discount relative to TBA securities sold for settlement in the current month. This discount, often referred to as the dollar roll "price drop," reflects compensation for the net interest income (interest income less financing costs) that is foregone as a result of relinquishing beneficial ownership of the MBS for the duration of the dollar roll (also known as "dollar roll income"). By executing a sequential series of dollar roll transactions, the Company is able to create the economic experience of investing in an agency MBS, financed with a repurchase agreement, over a period of time. Forward purchases and sales of TBA securities are accounted for as derivative instruments in the Company's financial statements. Accordingly, dollar roll income is recognized as a component of "investment gain (loss), net" along with all other periodic changes in the fair value of TBA commitments.

In addition to transacting in net long positions in TBA securities for investment purposes, the Company may also, from time to time, transact in net sale (or "net short") positions in TBA securities for the purpose of economically hedging a portion of the sensitivity of the fair value of the Company's investments in agency MBS to changes in interest rates.

Under the terms of these forward commitments, the daily exchange of variation margin may occur based on changes in the fair value of the agency MBS commitments if a party to the transaction demands it. Receivables recognized for the right to reclaim cash collateral posted by the Company in respect of TBA transactions is included in the line item "deposits" in the accompanying consolidated balance sheets. Liabilities recognized for the obligation to return cash collateral received by the Company in respect of TBA transactions is included in the line item "other liabilities" in the accompanying consolidated balance sheets.

In addition to TBA transactions, the Company may, from time to time, enter into commitments to purchase or sell specified agency MBS that do not qualify as regular-way security trades. Such commitments are also accounted for as derivative instruments.

#### **Derivative Instrument Population and Fair Value**

The following table presents the fair value of the Company's derivative instruments as of the dates indicated:

	December 31, 2019		December 31, 2018	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	\$ 1,417	\$ (8)	\$ —	\$ (5,709)
10-year U.S. Treasury note futures	—	—	—	(1,250)
TBA commitments	—	—	438	—
Total	\$ 1,417	\$ (8)	\$ 438	\$ (6,959)

## Interest Rate Swaps

The Company's interest rate swap agreements represent agreements to make semiannual interest payments based upon a fixed interest rate and receive quarterly variable interest payments based upon the prevailing three-month LIBOR on the date of reset.

The following table presents information about the Company's interest rate swap agreements that were in effect as of December 31, 2019:

	Notional Amount	Weighted-average:			Remaining Life (Years)	Fair Value
		Fixed Pay Rate	Variable Receive Rate	Net Receive (Pay) Rate		
Years to maturity:						
Less than 3 years	\$ 2,050,000	1.77%	1.92%	0.15%	1.6	\$ 83
3 to less than 7 years	510,000	1.61%	1.92%	0.31%	6.0	439
7 to less than 10 years	400,000	2.24%	1.91%	(0.33)%	9.5	715
10 or more years	25,000	2.96%	1.90%	(1.06)%	28.2	172
Total / weighted-average	<u>\$ 2,985,000</u>	1.81%	1.92%	0.11%	3.6	<u>\$ 1,409</u>

The following table presents information about the Company's interest rate swap agreements that were in effect as of December 31, 2018:

	Notional Amount	Weighted-average:			Remaining Life (Years)	Fair Value
		Fixed Pay Rate	Variable Receive Rate	Net Receive (Pay) Rate		
Years to maturity:						
Less than 3 years	\$ 1,050,000	1.53%	2.60%	1.07%	1.5	\$ (152)
3 to less than 7 years	325,000	2.00%	2.73%	0.73%	4.4	(432)
7 to less than 10 years	1,600,000	2.35%	2.70%	0.35%	8.5	(4,572)
10 or more years	125,000	3.02%	2.66%	(0.36)%	29.6	(553)
Total / weighted-average	<u>\$ 3,100,000</u>	2.07%	2.67%	0.60%	6.6	<u>\$ (5,709)</u>

## U.S. Treasury Note Futures

The Company may purchase or sell exchange-traded U.S. Treasury note futures with the objective of economically hedging a portion of its interest rate risk. Upon the maturity date of these futures contracts, the Company has the option to either net settle each contract in cash in an amount equal to the difference between the then-current fair value of the underlying U.S. Treasury note and the contractual sale price inherent to the futures contract, or to physically settle the contract by delivering the underlying U.S. Treasury note.

As of December 31, 2019, the Company had no U.S. Treasury note futures. As of December 31, 2018, the Company held short positions of 10-year U.S. Treasury note futures with an aggregate notional amount of \$320,000 with a maturity date in March 2019.

## Options on 10-year U.S. Treasury Note Futures

The Company may purchase or sell exchange-traded options on 10-year U.S. Treasury note futures contracts with the objective of economically hedging a portion of the sensitivity of its investments in agency MBS to significant changes in interest rates. The Company may purchase put options which provide the Company with the right to sell 10-year U.S. Treasury note futures to a counterparty, and the Company may also write call options that provide a counterparty with the option to buy 10-year U.S. Treasury note futures from the Company. In order to limit its exposure on its interest rate derivative instruments from a significant decline in long-term interest rates, the Company may also purchase contracts that provide the Company with the option to buy, or call, 10-year U.S. Treasury note futures from a counterparty. The options may be exercised at any time prior to their expiry, and if exercised, may be net settled in cash or through physical receipt or delivery of the underlying futures contracts.

As of December 31, 2019 and 2018, the Company had no outstanding options on 10-year U.S. Treasury note futures contracts.

## TBA Commitments

As of December 31, 2019, the Company had no outstanding TBA commitments. The following tables present information about the Company's TBA commitments as of the date indicated:

	December 31, 2018			
	Notional Amount: Net Purchase (Sale) Commitment	Contractual Forward Price	Market Price	Fair Value
Dollar roll positions:				
5.0% 30-year MBS purchase commitments	\$ 100,000	\$ 103,750	\$ 104,047	\$ 297
5.0% 30-year MBS sale commitments	(100,000)	(104,188)	(104,047)	141
Total TBA commitments, net	\$ —	\$ (438)	\$ —	\$ 438

## Derivative Instrument Gains and Losses

The following table provides information about the derivative gains and losses recognized within the periods indicated:

	For the Year Ended December 31,	
	2019	2018
Interest rate hedging instruments:		
Interest rate swaps:		
Net interest income (1)	\$ 15,087	\$ 6,266
Unrealized losses, net	(66,737)	(30,064)
(Losses) gains realized upon early termination, net	(78,569)	49,192
Total interest rate swap (losses) gains, net	(130,219)	25,394
U.S. Treasury note futures, net	(16,421)	8,647
Options on U.S. Treasury note futures, net	76	—
Total interest rate hedging instruments (losses) gains, net	(146,564)	34,041
TBA and specified agency MBS commitments:		
TBA dollar roll income (2)	4,470	20,929
Other gains (losses) on agency MBS commitments, net	15,904	(64,627)
Total gains (losses) on agency MBS commitments, net	20,374	(43,698)
Total derivative losses, net	\$ (126,190)	\$ (9,657)

- (1) Represents the periodic net interest settlement incurred during the period (often referred to as “net interest carry”). Also includes “price alignment interest” income earned or expense incurred on cumulative variation margin paid or received, respectively, associated with centrally cleared interest rate swap agreements.
- (2) Represents the price discount of forward-settling TBA purchases relative to a contemporaneously executed “spot” TBA sale, which economically equates to net interest income that is earned ratably over the period beginning on the settlement date of the sale and ending on the settlement date of the forward-settling purchase.

## Derivative Instrument Activity

The following tables summarize the volume of activity, in terms of notional amount, related to derivative instruments for the periods indicated:

	For the Year Ended December 31, 2019				
	Beginning of Period	Additions	Scheduled Settlements	Early Terminations	End of Period
Interest rate swaps	\$ 3,100,000	\$ 2,010,000	\$ (375,000)	\$ (1,750,000)	\$ 2,985,000
2-year U.S. Treasury note futures	—	139,000	(139,000)	—	—
10-year U.S. Treasury note futures	320,000	826,600	(885,000)	(261,600)	—
Sold call options on 10-year Treasury note futures	—	250,000	(250,000)	—	—
Purchased call options on 10-year Treasury note futures	—	500,000	(500,000)	—	—
Commitments to purchase (sell) MBS, net	—	5,970,000	(5,970,000)	—	—

	For the Year Ended December 31, 2018				
	Beginning of Period	Additions	Scheduled Settlements	Early Terminations	End of Period
Interest rate swaps	\$ 3,600,000	\$ 1,400,000	\$ —	\$ (1,900,000)	\$ 3,100,000
5-year U.S. Treasury note futures	21,600	—	(21,600)	—	—
10-year U.S. Treasury note futures	650,000	3,120,000	(3,200,000)	(250,000)	320,000
Commitments to purchase (sell) MBS, net	1,265,000	13,320,000	(14,585,000)	—	—

#### Cash Collateral Posted and Received for Derivative Instruments and Other Financial Instruments

The following table presents information about the cash collateral posted and received by the Company in respect of its derivative and other financial instruments, which is included in the line item “deposits” in the accompanying consolidated balance sheets, for the dates indicated:

	December 31, 2019	December 31, 2018
Cash collateral posted for:		
Interest rate swaps (cash initial margin)	\$ 37,122	\$ 54,883
U.S. Treasury note futures (cash initial margin)	—	6,169
Unsettled MBS trades and TBA commitments, net	1	—
Total cash collateral posted, net	\$ 37,123	\$ 61,052

As of December 31, 2018, the Company had received \$438 of cash collateral in respect of its forward-settling TBA commitments. The Company recognized a corresponding obligation to return this cash collateral to its counterparties, which is included in the line item “other liabilities” in the accompanying consolidated balance sheets.

#### Note 9. Offsetting of Financial Assets and Liabilities

The agreements that govern certain of the Company’s derivative instruments and collateralized short-term financing arrangements provide for a right of setoff in the event of default or bankruptcy with respect to either party to such transactions. The Company presents derivative assets and liabilities as well as collateralized short-term financing arrangements on a gross basis.

Receivables recognized for the right to reclaim cash initial margin posted in respect of interest rate derivative instruments are included in the line item “deposits” in the accompanying consolidated balance sheets.

The daily exchange of variation margin associated with a centrally cleared or exchange-traded derivative instrument is legally characterized as the daily settlement of the derivative instrument itself, as opposed to a pledge of collateral. Accordingly, the Company accounts for the daily receipt or payment of variation margin associated with its interest rate swaps and futures as a direct reduction to the carrying value of the interest rate swap derivative asset or liability, respectively. The carrying amount of interest rate swaps and futures reflected in the Company’s consolidated balance sheets is equal to the unsettled fair value of such instruments; because variation margin is exchanged on a one-day lag, the unsettled fair value of such instruments generally represents the change in fair value that occurred on the last day of the reporting period.



The following tables present information, as of the dates indicated, about the Company's derivative instruments, short-term borrowing arrangements, and associated collateral, including those subject to master netting (or similar) arrangements:

	As of December 31, 2019					Net Amount
	Gross Amount Recognized	Amount Offset in the Consolidated Balance Sheets	Net Amount Presented in the Consolidated Balance Sheets	Gross Amount Not Offset in the Consolidated Balance Sheets		
				Financial Instruments (1)	Cash Collateral (2)	
<b>Assets:</b>						
Derivative instruments:						
Interest rate swaps	\$ 1,417	\$ —	\$ 1,417	\$ —	\$ —	\$ 1,417
Total derivative instruments	1,417	—	1,417	—	—	1,417
Total assets	\$ 1,417	\$ —	\$ 1,417	\$ —	\$ —	\$ 1,417
<b>Liabilities:</b>						
Derivative instruments:						
Interest rate swaps	\$ 8	\$ —	\$ 8	\$ (8)	\$ —	\$ —
Total derivative instruments	8	—	8	(8)	—	—
Repurchase agreements	3,581,237	—	3,581,237	(3,581,237)	—	—
Total liabilities	\$ 3,581,245	\$ —	\$ 3,581,245	\$ (3,581,245)	\$ —	\$ —

	As of December 31, 2018					Net Amount
	Gross Amount Recognized	Amount Offset in the Consolidated Balance Sheets	Net Amount Presented in the Consolidated Balance Sheets	Gross Amount Not Offset in the Consolidated Balance Sheets		
				Financial Instruments (1)	Cash Collateral (2)	
<b>Assets:</b>						
Derivative instruments:						
TBA commitments	\$ 438	\$ —	\$ 438	\$ —	\$ (438)	\$ —
Total derivative instruments	438	—	438	—	(438)	—
Total assets	\$ 438	\$ —	\$ 438	\$ —	\$ (438)	\$ —
<b>Liabilities:</b>						
Derivative instruments:						
Interest rate swaps	\$ 5,709	\$ —	\$ 5,709	\$ —	\$ (5,709)	\$ —
10-year U.S. Treasury note futures	1,250	—	1,250	—	(1,250)	—
Total derivative instruments	6,959	—	6,959	—	(6,959)	—
Repurchase agreements	3,721,629	—	3,721,629	(3,721,629)	—	—
Total liabilities	\$ 3,728,588	\$ —	\$ 3,728,588	\$ (3,721,629)	\$ (6,959)	\$ —

- (1) Does not include the fair value amount of financial instrument collateral pledged in respect of repurchase agreements that exceeds the associated liability presented in the consolidated balance sheets.
- (2) Does not include the amount of cash collateral pledged in respect of derivative instruments that exceeds the associated derivative liability presented in the consolidated balance sheets.

## Note 10. Fair Value Measurements

### Fair Value of Financial Instruments

The accounting principles related to fair value measurements define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial Accounting Standards Board Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels, giving the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3) as described below:

- Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible by the Company at the measurement date;
- Level 2 Inputs - Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly; and
- Level 3 Inputs - Unobservable inputs for the asset or liability, including significant judgments made by the Company about the assumptions that a market participant would use.

The Company measures the fair value of the following assets and liabilities:

#### *Mortgage investments*

*Agency MBS* - The Company's investments in agency MBS are classified within Level 2 of the fair value hierarchy. Inputs to fair value measurements of the Company's investments in agency MBS include price estimates obtained from third-party pricing services. In determining fair value, third-party pricing services use a market approach. The inputs used in the fair value measurements performed by the third-party pricing services are based upon readily observable transactions for securities with similar characteristics (such as issuer/guarantor, coupon rate, stated maturity, and collateral pool characteristics) occurring on the measurement date. The Company makes inquiries of the third-party pricing sources to understand the significant inputs and assumptions used to determine prices. The Company reviews the various third-party fair value estimates and performs procedures to validate their reasonableness, including comparison to recent trading activity for similar securities and an overall review for consistency with market conditions observed as of the measurement date.

*Non-agency MBS* - Substantially all of the Company's investments in non-agency MBS are CMBS that are classified within Level 2 of the fair value hierarchy. Inputs to fair value measurements of the Company's investments in CMBS include quoted prices for similar assets in recent market transactions and estimates obtained from third-party pricing sources including pricing services and dealers. In determining fair value, third-party pricing sources use a market approach. The inputs used in the fair value measurements performed by third-party pricing sources are based upon observable transactions for CMBS with similar characteristics. The Company reviews and performs procedures the third-party fair value estimates and performs procedures to validate their reasonableness, including comparisons to recent trading activity observed for similar securities as well as a comparison to an internally derived discounted future flow measurement.

*Mortgage loans* - The Company's mortgage loan investment is classified within Level 3 of the fair value hierarchy. The fair value of the Company's mortgage loan investment as of December 31, 2019 is based upon its price of acquisition, which occurred on the measurement date. Prospectively, fair value measurements for the Company's mortgage loan investment will be based upon unobservable inputs which will require the Company to make judgments about the assumptions that a market participant would use.

#### *Derivative instruments*

*Exchange-traded derivative instruments* - Exchange-traded derivative instruments, which include U.S. Treasury note futures, Eurodollar futures, interest rate swap futures, and options on futures, are classified within Level 1 of the fair value hierarchy as they are measured using quoted prices for identical instruments in liquid markets.

*Interest rate swaps* - Interest rate swaps are classified within Level 2 of the fair value hierarchy. The fair values of the Company's centrally cleared interest rate swaps are measured using the daily valuations reported by the clearinghouse through which the instrument was cleared. In performing its end-of-day valuations, the clearinghouse constructs forward interest rate curves (for example, three-month LIBOR forward rates) from its specific observations of that day's trading activity. The clearinghouse uses the applicable forward interest rate curve to develop a market-based forecast of future remaining contractually required cash flows for each interest rate swap. Each market-based cash flow forecast is then discounted using the overnight index swap rate curve (sourced from the Federal Reserve Bank of New York) to determine a net present value amount which represents the instrument's fair value.

*Forward-settling purchases and sales of TBA securities* - Forward-settling purchases and sales of TBA securities are classified within Level 2 of the fair value hierarchy. The fair value of each forward-settling TBA contract is measured using price estimates obtained from a third-party pricing service, which are based upon readily observable transaction prices occurring on the measurement date for forward-settling contracts to buy or sell TBA securities with the same guarantor, contractual maturity, and coupon rate for delivery on the same forward settlement date as the commitment under measurement.

*Other*

*Long-term unsecured debt* - As of December 31, 2019 and 2018, the carrying value of the Company's long-term unsecured debt was \$74,328 and \$74,104, respectively, net of unamortized debt issuance costs, and consists of Senior Notes and trust preferred debt issued by the Company. The Company's estimate of the fair value of long-term unsecured debt is \$70,429 and \$66,562 as of December 31, 2019 and 2018, respectively. The Company's Senior Notes, which are publicly traded on the New York Stock Exchange, are classified within Level 1 of the fair value hierarchy. Trust preferred debt is classified within Level 2 of the fair value hierarchy as the fair value is estimated based on the quoted prices of the Company's publicly traded Senior Notes.

*Investments in equity securities of non-public companies and investment funds* - As of December 31, 2019 and December 31, 2018, the Company had investments in equity securities and investment funds measured at fair value of \$6,375 and \$6,115, respectively, which is included in the line item "other assets" in the accompanying consolidated balance sheets. ASU No. 2016-01, effective January 1, 2018, requires entities to measure investments in equity securities at fair value, unless fair value measurement is impractical, with changes in fair value recognized in current period earnings. Upon the adoption of ASU No. 2016-01, the Company recognized a cumulative-effect increase of \$4,059 (net of taxes) in stockholders' equity representing, as of January 1, 2018, the excess of fair value over historical cost of its investments in equity securities that were previously carried at their historical cost (net of impairments).

Investments in equity securities and investment funds are classified within Level 3 of the fair value hierarchy. The fair values of the Company's investments in equity securities and investment funds are not readily determinable. Accordingly, for its investments in equity securities, the Company estimates fair value by estimating the enterprise value of the investee which it then allocates to the investee's securities in the order of their preference relative to one another. To estimate the enterprise value of the investee, the Company uses traditional valuation methodologies based on income and market approaches, including the consideration of recent investments in, or tender offers for, the equity securities of the investee, a discounted cash flow analysis and a comparable guideline public company valuation. The primary unobservable inputs used in estimating the fair value of an equity security of a non-public company include (i) a stock price to net asset multiple for similar public companies that is applied to the entity's net assets, (ii) a discount factor for lack of marketability and control, and (iii) a cost of equity discount rate, used to discount to present value the equity cash flows available for distribution and the terminal value of the entity. As of December 31, 2019, the stock price to net asset multiple for similar public companies, the discount factor for lack of marketability and control, and the cost of equity discount rate used as inputs were 95 percent, 9 percent, and 12 percent, respectively. As of December 31, 2018, the stock price to net asset multiple for similar public companies, the discount factor for lack of marketability and control, and the cost of equity discount rate used as inputs were 91 percent, 8 percent, and 12 percent, respectively. For its investments in investment funds, the Company estimates fair value based upon the investee's net asset value per share.

*Financial assets and liabilities for which carrying value approximates fair value* - Cash and cash equivalents, deposits, receivables, repurchase agreements, payables, and other assets and liabilities are generally reflected in the consolidated balance sheets at their cost, which, due to the short-term nature of these instruments and their limited inherent credit risk, approximates fair value.

## Fair Value Hierarchy

### Financial Instruments Measured at Fair Value on a Recurring Basis

The following tables set forth financial instruments measured at fair value by level within the fair value hierarchy as of December 31, 2019 and 2018. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
MBS				
Trading:				
Agency MBS	\$ 3,768,496	\$ —	\$ 3,768,496	\$ —
Non-agency MBS	33,501	—	33,478	23
Total MBS	3,801,997	—	3,801,974	23
Mortgage loans	45,000	—	—	45,000
Derivative assets	1,417	—	1,417	—
Derivative liabilities	(8)	—	(8)	—
Other assets	6,375	—	—	6,375
Total	<u>\$ 3,854,781</u>	<u>\$ —</u>	<u>\$ 3,803,383</u>	<u>\$ 51,398</u>
	December 31, 2018			
	Total	Level 1	Level 2	Level 3
MBS				
Trading:				
Agency MBS	\$ 3,982,106	\$ —	\$ 3,982,106	\$ —
Non-agency MBS	24	—	—	24
Total MBS	3,982,130	—	3,982,106	24
Derivative assets	438	—	438	—
Derivative liabilities	(6,959)	(1,250)	(5,709)	—
Other assets	6,115	—	—	6,115
Total	<u>\$ 3,981,724</u>	<u>\$ (1,250)</u>	<u>\$ 3,976,835</u>	<u>\$ 6,139</u>

### Level 3 Financial Assets and Liabilities

The table below sets forth an attribution of the change in the fair value of the Company's Level 3 investments that are measured at fair value on a recurring basis for the periods indicated:

	Year Ended December 31,	
	2019	2018
Beginning balance	\$ 6,139	\$ 515
Investments in equity securities measured at fair value beginning January 1, 2018	—	5,362
Included in investment gain (loss), net	359	313
Purchases	45,000	—
Sales	—	—
Payments, net	(123)	(71)
Accretion of discount	23	20
Ending balance	<u>\$ 51,398</u>	<u>\$ 6,139</u>
Net unrealized gains (losses) included in earnings for the period for Level 3 assets still held at the reporting date	<u>\$ 374</u>	<u>\$ 313</u>

## Note 11. Income Taxes

For its tax years ended December 31, 2018 and earlier, Arlington Asset was subject to taxation as a corporation under Subchapter C of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). On December 27, 2018, the Company's Board of Directors approved a plan for Arlington Asset to elect to be taxed and to operate in a manner that will allow it to qualify as a real estate investment trust ("REIT") under the Internal Revenue Code commencing with its taxable year ended December

31, 2019. As a REIT, the Company is required to distribute annually 90% of its REIT taxable income. So long as the Company continues to qualify as a REIT, it will generally not be subject to U.S. federal or state corporate income taxes on its taxable income to the extent that it distributes all of its annual taxable income to its shareholders on a timely basis. At present, it is the Company's intention to distribute 100% of its taxable income, although the Company will not be required to do so. The Company intends to make distributions of its taxable income within the time limits prescribed by the Internal Revenue Code, which may extend into the subsequent taxable year.

Income taxes are provided for using the asset and liability method. Deferred tax assets and liabilities reflect the impact of temporary differences between the carrying amount of assets and liabilities pursuant to the application of GAAP and their respective tax bases and are stated at enacted tax rates expected to be in effect when the taxes are actually paid or recovered. Deferred tax assets are also recorded for net operating loss ("NOL") carryforwards and net capital loss ("NCL") carryforwards. A valuation allowance is provided against deferred tax assets if, based upon the Company's evaluation, it is more-likely-than-not that some or all of the deferred tax assets will not be realized. All available evidence, both positive and negative, is incorporated into the determination of whether a valuation allowance for deferred tax assets is appropriate. Items considered in the valuation allowance determination include expectations of future earnings of the appropriate tax character, recent historical financial results, tax planning strategies, the length of statutory carryforward periods and the expected timing of the reversal of temporary differences.

Under the Internal Revenue Code, a REIT is taxed as a C corporation. However, in computing its taxable income, a REIT can deduct dividends paid to arrive at its taxable income. If a REIT distributes all its taxable income within the time limits prescribed by the Internal Revenue Code, the enacted tax rate used to calculate deferred tax assets and liabilities of a REIT is zero. The income tax effects of a REIT conversion for financial reporting purposes are reflected in the period in which all significant actions necessary to qualify as a REIT are completed and the entity has committed to becoming a REIT, including (i) obtaining approval from the appropriate parties, (ii) purging through a distribution to shareholders any accumulated earnings and profits ("E&P") from its operations as a C corporation, and (iii) having any remaining actions for the Company to achieve REIT status be perfunctory legal and administrative matters. On December 27, 2018, the Company's Board of Directors approved a plan for Arlington Asset to elect to be taxed and to operate in a manner that will allow it to qualify as a REIT commencing with its taxable year ended December 31, 2019 with no further approvals necessary for the Company to be eligible to be taxed as a REIT. As of December 31, 2018, the Company did not have any accumulated E&P from its operations as a C corporation, and therefore the Company did not need to make any distributions to shareholders of accumulated E&P to qualify as a REIT. Along with continuing to meet ongoing REIT qualification requirements, the only remaining action for the Company to achieve REIT status is to file its federal income tax return for fiscal year 2019 as a REIT on its required filing date. In addition, the Company obtained shareholder approval at its 2019 annual shareholder meeting to amend its articles of incorporation to include customary REIT ownership limitations to facilitate compliance with REIT qualification requirements. Both of these actions are considered perfunctory legal and administrative matters. Accordingly, since all significant actions necessary to qualify as a REIT were met as of December 31, 2018, the Company's deferred tax assets and liabilities as of that date were adjusted to reflect a tax rate of zero percent expected to be applied in the period in which the deferred tax assets and liabilities are expected to be realized resulting in the elimination of the Company's deferred tax assets and liabilities as of December 31, 2018.

As of December 31, 2019, the Company has distributed all of its estimated taxable income for 2019. Accordingly, the Company does not expect to incur an income tax liability on its 2019 taxable income.

For the years ended December 31, 2018 and 2017, the Company determined that it should record a valuation allowance against deferred tax assets that are capital in nature, which consists of NCL carryforwards and temporary GAAP to tax differences that are expected to result in capital losses in future periods, resulting in an increase to the Company's valuation allowance of \$38,128 and \$16,761, respectively.

The provision for income taxes from operations consists of the following for the years ended December 31, 2019, 2018 and 2017:

	2019	2018	2017
Federal	\$ —	\$ 562	\$ 33,495
State	—	171	6,108
Total income tax provision	<u>\$ —</u>	<u>\$ 733</u>	<u>\$ 39,603</u>
Current	\$ —	\$ (1)	\$ 706
Deferred	—	734	38,897
Total income tax provision	<u>\$ —</u>	<u>\$ 733</u>	<u>\$ 39,603</u>

The provision for income taxes results in effective tax rates that differ from the federal statutory rates. The reconciliation of the Company and its subsidiaries' income tax attributable to "income (loss) before income taxes" computed at federal statutory rates to the provision for income taxes for the years ended December 31, 2019, 2018, and 2017 were as follows:

	2019	2018	2017
Federal income tax at statutory rate	\$ —	\$ (19,123)	\$ 19,963
State income taxes, net of federal benefit	—	(4,316)	2,224
Change in enacted tax rate	—	—	409
Change in expected enacted tax rate from REIT conversion	—	(14,744)	—
Other, net	—	788	246
Valuation allowance	—	38,128	16,761
Total income tax provision	\$ —	\$ 733	\$ 39,603

As of December 31, 2019, the Company had estimated NOL carryforwards of \$14,588 that can be used to offset future taxable ordinary income. The Company's NOL carryforwards expire in 2028. As of December 31, 2019, the Company had estimated NCL carryforwards of \$283,270 that can be used to offset future net capital gains. The scheduled expirations of the Company's NCL carryforwards are \$102,322 in 2020, \$66,862 in 2021, \$3,763 in 2022 and \$110,323 in 2023.

Through December 31, 2017, the Company was subject to federal alternative minimum tax ("AMT") on its taxable income and gains that are not offset by its NOL and NCL carryforwards with any AMT credit carryforwards available to offset future regular tax liabilities. As part of the Tax Cuts and Jobs Act, the corporate AMT is repealed for tax years beginning after December 31, 2017 with any AMT credit carryforward after that date continuing to be available to offset a taxpayer's future regular tax liability. In addition, for tax years beginning in 2018, 2019 and 2020, to the extent that AMT credit carryforwards exceed the regular tax liability, 50% of the excess AMT credit carryforwards would be refundable in that year with any remaining AMT credit carryforwards fully refundable in 2021. As a result, the realizability of the Company's AMT credit carryforward is certain and will be realized as either a cash refund or as an offset to future regular tax liabilities or a combination of both. During the year ended December 31, 2019, the Company received a cash refund of \$4,566 of its AMT credit carryforward. As of December 31, 2019 and 2018, the Company had remaining AMT credit carryforwards of \$4,566 and \$9,132, respectively, included as a receivable in other assets on the accompanying consolidated balance sheets.

The Company recognizes uncertain tax positions in the financial statements only when it is more-likely-than-not that the position will be sustained upon examination by the relevant taxing authority based on the technical merits of the position. A position that meets this standard is measured at the largest amount of benefit that will more-likely-than-not be realized upon settlement. A liability is established for differences between positions taken in a tax return and the financial statements. As of December 31, 2019 and 2018, the Company assessed the need for recording a provision for any uncertain tax position and has made the determination that such provision is not necessary.

The Company is subject to examination by the IRS and state and local authorities in jurisdictions where the Company has significant business operations. The Company's federal tax returns for 2015 and forward remain subject to examination by the IRS.

On May 29, 2018, the Company received an assessment of \$9,380 from Arlington County, Virginia for a business, professional and occupation license ("BPOL") tax for 2018. The BPOL tax is a local privilege tax on a business' gross receipts for conducting business activities subject to licensure within a county in Virginia. The Company has not been assessed or paid any such BPOL tax prior to 2018. On June 28, 2018, the Company filed an administrative appeal with Arlington County. On August 1, 2018, the Company received a denial of its administrative appeal from Arlington County and, subsequently, the Company filed an administrative appeal with the Tax Commissioner of Virginia (the "Tax Commissioner") on September 27, 2018. On June 21, 2019, the Company received a determination from the Tax Commissioner stating that he believes the Company is engaged in a licensable privilege subject to the BPOL tax. The Tax Commissioner requested that Arlington County revise its initial BPOL tax assessment to exclude certain gross receipts from its tax calculation. On August 21, 2019, the Company received a revised 2018 BPOL tax assessment of \$488, including interest charges, as well as a 2019 BPOL tax assessment of \$471 from Arlington County, both of which the Company paid on September 3, 2019. On September 30, 2019, the Company relocated its corporate headquarters from Arlington County to Fairfax County, Virginia. As a result, the Company received a partial refund of its 2019 BPOL tax of \$118 from Arlington County while also recognizing a partial year 2019 BPOL tax assessment of \$54 to Fairfax County. For the year ended December 31, 2019, the Company recognized an expense of \$892 in "other general and administrative expense" which represents the 2018 and 2019 BPOL tax (and associated interest). The Company reserves the right to appeal the Tax Commissioner's determination through June 2020. BPOL tax for the 2017 year remains subject to examination by Arlington County, although the county has previously informally indicated that it did not intend to pursue assessments for that year at such time.

## Note 12. Commitments and Contingencies

### Contractual Obligations

The Company has contractual obligations to make future payments in connection with long-term debt and non-cancelable lease agreements. The following table sets forth these contractual obligations by fiscal year as of December 31, 2019:

	2020	2021	2022	2023	2024	Thereafter	Total
Long-term debt maturities	\$ —	\$ —	\$ —	\$ 25,000	\$ —	\$ 50,300	\$ 75,300
Minimum rental commitments	52	65	55	—	—	—	172
	<u>\$ 52</u>	<u>\$ 65</u>	<u>\$ 55</u>	<u>\$ 25,000</u>	<u>\$ —</u>	<u>\$ 50,300</u>	<u>\$ 75,472</u>

## Note 13. Shareholders' Equity

### Common Stock

The Company has authorized common share capital of 450,000,000 shares of Class A common stock, par value \$0.01 per share, and 100,000,000 shares of Class B common stock, par value \$0.01 per share. Holders of the Class A and Class B common stock are entitled to one vote and three votes per share, respectively, on all matters voted upon by the shareholders. Shares of Class B common stock are convertible into shares of Class A common stock on a one-for-one basis at the option of the Company in certain circumstances including either (i) upon sale or other transfer, or (ii) at the time the holder of such shares of Class B common stock ceases to be employed by the Company. The Class A common stock is publicly traded on the New York Stock Exchange under the ticker symbol "AI."

During the year ended December 31, 2017, holders of the Company's Class B common stock converted an aggregate of 20,256 shares of Class B common stock into 20,256 shares of Class A common stock. As of December 31, 2017, all remaining shares of Class B common stock had been exchanged for shares of the Company's Class A common stock.

### Common Stock Dividends

The Company's Board of Directors evaluates common stock dividends on a quarterly basis and, in its sole discretion, approves the payment of dividends. The Company's common stock dividend payments, if any, may vary significantly from quarter to quarter. The Board of Directors has approved and the Company declared and paid the following dividends on its common stock for 2019:

Quarter Ended	Dividend Amount	Declaration Date	Record Date	Pay Date
December 31	\$ 0.225	December 13	December 31	February 3, 2020
September 30	0.225	September 17	September 30	October 31
June 30	0.225	June 24	July 5	July 31
March 31	0.375	March 18	March 29	April 30

The Board of Directors approved and the Company declared and paid the following dividends on its common stock for 2018:

Quarter Ended	Dividend Amount	Declaration Date	Record Date	Pay Date
December 31	\$ 0.375	December 13	December 31	January 31, 2019
September 30	0.375	September 13	September 28	October 31
June 30	0.375	June 14	June 29	July 31
March 31	0.550	March 15	March 29	April 30

### Common Equity Offerings

On February 22, 2019, the Company completed a public offering in which 6,000,000 shares of its Class A common stock were sold at a price of \$8.16 per share for proceeds, net of offering expenses of \$48,827.

### Common Equity Distribution Agreements

On February 22, 2017, the Company entered into separate common equity distribution agreements with equity sales agents JMP Securities LLC, FBR Capital Markets & Co., JonesTrading Institutional Services LLC and Ladenburg Thalmann & Co. Inc. pursuant to which the Company may offer and sell, from time to time, up to 6,000,000 shares of the Company's Class A common

stock. On August 10, 2018, the Company entered into separate amendments to the equity distribution agreements with equity sales agents JMP Securities LLC, B. Riley FBR, Inc. (formerly, FBR Capital Markets & Co.), JonesTrading Institutional Services LLC and Ladenburg Thalmann & Co. Inc. pursuant to which the Company may offer and sell, from time to time, up to 12,597,423 shares of the Company's Class A common stock.

Pursuant to the common equity distribution agreements, shares of the Company's common stock may be offered and sold through the equity sales agents in transactions that are deemed to be "at the market" offerings as defined in Rule 415 under the Securities Act of 1933, including sales made directly on the NYSE or sales made to or through a market maker other than on an exchange or, subject to the terms of a written notice from the Company, in privately negotiated transactions.

The following table provides information about the issuances of common stock under the common equity distribution agreements for the periods indicated:

<b>Class A Common Stock Issuances</b>	<b>Year Ended December 31, 2018</b>
Shares issued	2,226,557
Weighted average public offering price	\$ 10.19
Net proceeds (1)	\$ 22,326

(1) Net of selling commissions and expenses.

As of December 31, 2019, the Company had 11,302,160 shares of Class A common stock available for sale under the common equity distribution agreements.

#### ***Common Share Repurchase Program***

The Company's Board of Directors authorized a share repurchase program pursuant to which the Company may repurchase up to 2,000,000 shares of Class A common stock (the "Repurchase Program"). Repurchases under the Repurchase Program may be made from time to time on the open market and in private transactions at management's discretion in accordance with applicable federal securities laws. The timing of repurchases and the exact number of shares of Class A common stock to be repurchased will depend upon market conditions and other factors. The Repurchase Program is funded using the Company's cash on hand and cash generated from operations. The Repurchase Program has no expiration date and may be suspended or terminated at any time without prior notice. There were no shares repurchased by the Company under the Repurchase Program during the years ended December 31, 2019 and 2018. As of December 31, 2019, there remain available for repurchase 1,951,305 shares of Class A common stock under the Repurchase Program.

#### ***Preferred Stock***

The Company has authorized preferred share capital of (i) 100,000 shares designated as Series A Preferred Stock that is unissued; (ii) 2,000,000 shares designated as 7.00% Series B Cumulative Perpetual Redeemable Preferred Stock (the "Series B Preferred Stock"), par value of \$0.01 per share; (iii) 2,500,000 shares designated as 8.250% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (the "Series C Preferred Stock"), par value of \$0.01 per share; and (iv) 20,400,000 shares of undesignated preferred stock. The Company's Board of Directors has the authority, without further action by the shareholders, to issue additional preferred stock in one or more series and to fix the terms and rights of the preferred stock. The Company's preferred stock ranks senior to its common stock with respect to the payment of dividends and the distribution of assets upon a voluntary or involuntary liquidation, dissolution, or winding up of the Company. The Company's preferred stock ranks on parity with each other. The Series B Preferred Stock and Series C Preferred Stock are publicly traded on the New York Stock Exchange under the ticker symbols "AI PrB" and "AI PrC," respectively.

In May 2017, the Company completed an initial public offering in which 135,000 shares of its Series B Preferred Stock were issued to the public at a public offering price of \$24.00 per share for proceeds net of underwriting discounts and commissions and expenses of \$3,018.

The Series B Preferred Stock has no stated maturity, is not subject to any sinking fund and will remain outstanding indefinitely unless repurchased or redeemed by the Company. Holders of Series B Preferred Stock have no voting rights, except under limited conditions, and are entitled to receive a cumulative cash dividend at a rate of 7.00% per annum of their \$25.00 per share liquidation preference (equivalent to \$1.75 per annum per share). Shares of Series B Preferred Stock are redeemable at \$25.00 per share, plus accumulated and unpaid dividends (whether or not authorized or declared), exclusively at the Company's option commencing on May 12, 2022 or earlier upon the occurrence of a change in control. Dividends are payable quarterly in arrears on the 30th day of March, June, September and December of each year, when and as declared. As of December 31, 2019, the Company had declared and paid all required quarterly dividends on the Company's Series B Preferred Stock.



On March 12, 2019, the Company completed an initial public offering in which 1,200,000 shares of its Series C Preferred Stock were issued to the public at a public offering price of \$25.00 per share for proceeds net of underwriting discounts and commissions and expenses of \$28,944.

The Series C Preferred Stock has no stated maturity, is not subject to any sinking fund and will remain outstanding indefinitely unless repurchased or redeemed by the Company. Holders of Series C Preferred Stock have no voting rights, except under limited conditions, and are entitled to receive a cumulative cash dividend (i) from and including the original issue date to, but excluding, March 30, 2024 at a fixed rate equal to 8.250% per annum of the \$25.00 per share liquidation preference (equivalent to \$2.0625 per annum per share) and (ii) from and including March 30, 2024, at a floating rate equal to three-month LIBOR plus a spread of 5.664% per annum of the \$25.00 per share liquidation preference. Shares of Series C Preferred Stock are redeemable at \$25.00 per share, plus accumulated and unpaid dividends (whether or not authorized or declared), exclusively at the Company’s option commencing on March 30, 2024 or earlier upon the occurrence of a change in control or under circumstances where it is necessary to preserve the Company’s qualification as a REIT. Dividends are payable quarterly in arrears on the 30th day of March, June, September and December of each year, when and as declared, beginning on June 30, 2019. As of December 31, 2019, the Company had declared and paid all required quarterly dividends on the Company’s Series C Preferred Stock.

### ***Preferred Equity Distribution Agreement***

On May 16, 2017, the Company entered into an equity distribution agreement with JonesTrading Institutional Services LLC, pursuant to which the Company may offer and sell, from time to time, up to 1,865,000 shares of the Company’s Series B Preferred Stock. On March 21, 2019, the Company entered into an amended and restated equity distribution agreement with JonesTrading Institutional Services LLC, B. Riley FBR, Inc., Compass Point Research and Trading, LLC and Ladenburg Thalmann & Co. Inc., pursuant to which the Company may offer and sell, from time to time, up to 1,647,370 shares of the Company’s Series B Preferred Stock. Pursuant to the Series B preferred equity distribution agreement, shares of the Company’s Series B Preferred stock may be offered and sold through the preferred equity sales agents in transactions that are deemed to be “at the market” offerings as defined in Rule 415 under the Securities Act of 1933, including sales made directly on the NYSE or sales made to or through a market maker other than on an exchange or, subject to the terms of a written notice from the Company, in privately negotiated transactions.

The following table provides information about the issuances of preferred stock under the Series B preferred equity distribution agreements for the periods indicated:

<b>Series B Preferred Stock Issuances</b>	<b>Year Ended December 31, 2019</b>	<b>Year Ended December 31, 2018</b>
Shares issued	3,444	47,304
Weighted average public offering price	\$ 22.39	\$ 24.75
Net proceeds (1)	\$ 76	\$ 1,137

(1) Net of selling commissions and expenses.

As of December 31, 2019, the Company had 1,645,961 shares of Series B Preferred stock available for sale under the Series B preferred equity distribution agreement.

### ***Shareholder Rights Agreement***

On June 1, 2009, the Board of Directors approved a shareholder rights agreement (“Rights Plan”) and the Company’s shareholders approved the Rights Plan at its annual meeting of shareholders on June 2, 2010. On April 9, 2018, the Board of Directors approved a first amendment to the Rights Plan (“First Amendment”) to extend the term for an additional three years and the Company’s shareholders approved the First Amendment at its annual meeting of shareholders on June 14, 2018.

Under the terms of the Rights Plan, in general, if a person or group acquires or commences a tender or exchange offer for beneficial ownership of 4.9% or more of the outstanding shares of our Class A common stock upon a determination by our Board of Directors (an “Acquiring Person”), all of our other Class A and Class B common shareholders will have the right to purchase securities from us at a discount to such securities’ fair market value, thus causing substantial dilution to the Acquiring Person.

The Board of Directors adopted the Rights Plan in an effort to protect against a possible limitation on the Company’s ability to use its NOL carryforwards, NCL carryforwards, and built-in losses under Sections 382 and 383 of the Code. The Company’s ability to use its NOLs, NCLs and built-in losses would be limited if it experienced an “ownership change” under Section 382 of the Code. In general, an “ownership change” would occur if there is a cumulative change in the ownership of the Company’s common stock of more than 50% by one or more “5% shareholders” during a three-year period. The Rights Plan was adopted to dissuade any person or group from acquiring 4.9% or more of the Company’s outstanding Class A common stock, each, an Acquiring Person, without the approval of the Board of Directors and triggering an “ownership change” as defined by Section 382.

The Rights Plan, as amended, and any outstanding rights will expire at the earliest of (i) June 4, 2022, (ii) the time at which the rights are redeemed or exchanged pursuant to the Rights Plan, (iii) the repeal of Section 382 and 383 of the Code or any successor statute if the Board of Directors determines that the Rights Plan is no longer necessary for the preservation of the applicable tax benefits, or (iv) the beginning of a taxable year to which the Board of Directors determines that no applicable tax benefits may be carried forward.

#### **Note 14. Long-Term Incentive Plan**

The Company provides its employees and its non-employee directors with long-term incentive compensation in the form of stock-based awards. On April 7, 2014, the Board of Directors adopted the Arlington Asset Investment Corp. 2014 Long-Term Incentive Plan (the “2014 Plan”), which was approved by the Company’s shareholders and became effective on July 15, 2014.

Under the 2014 Plan, a maximum number of 2,000,000 shares of Class A common stock of the Company, subject to adjustment as set forth in the 2014 Plan, were authorized for issuance and may be issued to employees, directors, consultants and advisors of the Company and its affiliates. As of December 31, 2019, 1,274,621 shares remained available for issuance under the 2014 Plan. The 2014 Plan replaced the Arlington Asset Investment Corp. 2011 Long-Term Incentive Plan (the “2011 Plan”). No additional grants will be made under the 2011 Plan. However, previous grants under the 2011 Plan will remain in effect subject to the terms of the 2011 Plan and the applicable award agreement.

Under the 2014 Plan, the Compensation Committee of the Company’s Board of Directors may grant restricted stock, restricted stock units (“RSUs”), performance stock units (“PSUs”), stock options, stock appreciation rights (“SARs”) and/or other stock-based awards. However, no participant may be granted (i) stock options or SARs during any twelve-month period covering more than 300,000 shares or (ii) restricted stock, RSUs, PSUs and/or other stock-based awards denominated in shares that are intended to qualify as performance based compensation under Section 162(m) that permit the participant to earn more than 300,000 shares for each twelve months in the vesting or period on which performance is measured (“Performance Period”). These share limits are subject to adjustment in the event of any merger, reorganization, consolidation, recapitalization, stock dividend, stock split, reverse stock split, spin-off, extraordinary cash dividend or similar transaction or other change in corporate structure affecting the share. In addition, during any calendar year no participant may be granted performance awards that are denominated in cash and that are intended to qualify as performance based compensation under Section 162(m) under which more than \$10,000 may be earned for each twelve months in the Performance Period. Each of the individual award limits described in this paragraph will be multiplied by two during the first calendar year in which the participant commences employment with the Company and its affiliates. The 2014 Plan will terminate on the tenth anniversary of its effective date unless sooner terminated by the Board of Directors.

Stock-based compensation costs are initially measured at the estimated fair value of the awards on the grant date developed using appropriate valuation methodologies, as adjusted for estimates of future award forfeitures. Valuation methodologies used and subsequent expense recognition is dependent upon each award’s service and performance conditions.

#### *Performance Stock Unit Awards*

Compensation costs for PSUs subject to nonmarket-based performance conditions (i.e. performance not predicated on changes in the Company’s stock price) are measured at the closing stock price on the dates of grant, adjusted for the probability of achieving certain benchmarks included in the performance metrics. These initial cost estimates are recognized as expense over the requisite performance periods, as adjusted for changes in estimated, and ultimately actual, performance and forfeitures. Compensation costs for components of PSUs subject to market-based performance conditions (i.e. performance predicated on changes in the Company’s stock price) are measured at the dates of grant using a Monte Carlo simulation model which incorporates into the valuation the inherent uncertainty regarding the achievement of the market-based performance metrics. These initial valuation amounts are recognized as expense over the requisite performance periods, subject only to adjustments for changes in estimated, and ultimately actual, forfeitures.

The Company has granted performance stock units to executive officers of the Company that are convertible into shares of Class A common stock following the applicable performance periods. The performance goals established by the Compensation Committee are based on (i) the compound annualized growth in the Company’s book value per share (i.e., book value change with such adjustments as determined and approved by the Compensation Committee plus dividends on a reinvested basis) during the applicable performance period (“Book Value PSUs’), (ii) the compound annualized total shareholder return (i.e., share price change plus dividends on a reinvested basis) during the applicable performance period (“TSR PSUs”), and (iii) annual return on equity during the applicable performance period (“ROE PSUs’).

The Compensation Committee of the Board of Directors of the Company approved the following PSU grants for the periods indicated:

	December 31,		
	2019	2018	2017
Book Value PSUs granted	67,935	76,043	57,732
Book Value PSU grant date fair value per share	\$ 6.83	\$ 10.31	\$ 13.58
TSR PSUs granted	26,977	32,052	23,787
TSR PSU grant date fair value per share	\$ 8.60	\$ 12.23	\$ 16.48
ROE PSUs granted	67,935	76,043	57,732
ROE PSU grant date fair value per share	\$ 6.83	\$ 10.31	\$ 13.58

For the Company's Book Value PSUs and ROE PSUs, the grant date fair value per share is based on the close price on the date of grant. For the Company's TSR PSUs, the grant date fair value per share is based on a Monte Carlo simulation model. The following assumptions, determined as of the date of grant, were used in the Monte Carlo simulation model to measure the grant date fair value per share of the Company's TSR PSUs for the periods indicated:

	TSR PSUs Granted in:		
	2019	2018	2017
Closing stock price on date of grant	\$ 6.83	\$ 10.31	\$ 13.58
Beginning average stock price on date of grant (1)	\$ 6.90	\$ 11.16	\$ 14.53
Expected volatility (2)	20.54%	24.68%	24.03%
Dividend yield (3)	0.00%	0.00%	0.00%
Risk-free rate (4)	1.73%	2.61%	1.52%

- (1) Based upon the 30 trading days prior to and including the date of grant.
- (2) Based upon the most recent three-year volatility as of the date of grant.
- (3) Dividend equivalents are accrued during the performance period and deemed reinvested in additional stock units, which are to be paid out at the end of the performance period to the extent the underlying PSU is earned. Applying dividend yield assumption of 0.00% in the Monte Carlo simulation is mathematically equivalent to reinvesting dividends on a continuous basis and including the value of the dividends in the final payout.
- (4) Based upon the yield of a U.S. Treasury bond with a three-year maturity as of the date of grant.

The vesting of the PSUs is subject to both continued employment under the terms of the award agreement and the achievement of the Company performance goals established by the Compensation Committee. For Book Value PSU and TSR PSU awards granted during the three years ended December 31, 2019, the Compensation Committee established a three-year performance period. The actual number of shares of Class A common stock that will be issued to each participant at the end of the applicable performance period will vary between 0% and 250% of the number of Book Value PSUs and TSR PSUs granted, depending on performance results. If the minimum threshold level of performance goals is not achieved, no Book Value PSUs or TSR PSUs are earned. To the extent the performance results are between the minimum threshold level and maximum level of performance goals, between 50% to 250% of the number of Book Value PSUs and TSR PSUs granted are earned. Upon settlement, vested Book Value PSUs and TSR PSUs are converted into shares of the Company's Class A common stock on a one-for-one basis.

For the ROE PSU awards, the Compensation Committee established a one-year performance period. Any ROE PSUs earned at the end of the one-year performance period would be converted into an equal number of shares of restricted stock that will vest on the third anniversary of the original ROE PSU grant date subject to both continued employment under the terms of the award agreement. If the threshold level of performance goals is not achieved, no ROE PSUs are earned.

PSUs do not have any voting rights. No dividends are paid on outstanding PSUs during the applicable performance period. Instead, dividend equivalents are accrued on outstanding PSUs during the applicable performance period, deemed invested in shares of Class A common stock and are paid out in shares of Class A common stock at the end of the performance period to the extent that the underlying PSUs vest.

For the years ended December 31, 2019, 2018, and 2017, the Company recognized \$552, \$(776) and \$2,263, respectively, of compensation expense related to PSU awards. For the year ended December 31, 2018, the compensation expense included a reversal of \$1,945 of expense recognized in prior periods due to a reduction in the number of PSUs expected to vest based on deterioration in performance metrics. As of December 31, 2019, 2018, and 2017 the Company had unrecognized compensation expense related to PSU awards of \$1,808, \$2,166 and \$4,485, respectively. The unrecognized compensation expense as of December 31, 2019 is expected to be recognized over a weighted average period of 2.32 years. For Book Value PSUs and TSR PSUs that had performance

measurement periods ending during the years ended December 31, 2019, 2018, and 2017, none of the performance measures were met and therefore no Book Value PSUs or TSR PSUs were earned or vested during those periods. For the years ended December 31, 2019 and 2018, there were 89,895 and 68,585 ROE PSUs, respectively, including dividend equivalents, that were earned and converted into an equal number of shares of restricted stock that will vest on the third anniversary of the original ROE PSU grant date.

#### *Employee Restricted Stock Awards*

Compensation costs for restricted stock awards subject only to service conditions are measured at the closing stock price on the dates of grant and are recognized as expense on a straight-line basis over the requisite service periods for the awards, as adjusted for changes in estimated, and ultimately actual, forfeitures.

The Company grants restricted common shares to employees that vest ratably over a three-year period or cliff-vest after two to four years based on continued employment over these specified periods. A summary of these unvested restricted stock awards is presented below:

	<u>Number of Shares</u>	<u>Weighted-average Grant-date Fair Value</u>	<u>Weighted- average Remaining Vested Period</u>
Share Balance as of December 31, 2016	161,891	\$ 18.47	1.4
Granted	74,000	12.74	—
Forfeitures	—	—	—
Vestitures	(73,050)	20.00	—
Share Balance as of December 31, 2017	162,841	15.18	1.3
Granted	96,000	9.34	—
Conversion of ROE PSUs	68,585	13.58	—
Forfeitures	—	—	—
Vestitures	(84,050)	16.87	—
Share Balance as of December 31, 2018	243,376	11.84	1.5
Granted	129,500	5.49	—
Conversion of ROE PSUs	89,895	10.31	—
Forfeitures	—	—	—
Vestitures	(150,809)	11.92	—
Share Balance as of December 31, 2019	<u>311,962</u>	\$ 8.73	1.4

For the years ended December 31, 2019, 2018, and 2017, the Company recognized \$1,488, \$1,132 and \$1,172, respectively, of compensation expense related to restricted stock awards. As of December 31, 2019, 2018, and 2017 the Company had unrecognized compensation expense related to restricted stock awards of \$1,603, \$1,552 and \$1,284, respectively. The unrecognized compensation expense as of December 31, 2019 is expected to be recognized over a weighted average period of 1.4 years. For the years ended December 31, 2019, 2018 and 2017, the intrinsic value of restricted stock awards that vested were \$838, \$818, and \$970, respectively.

In addition, as part of the Company's satisfaction of incentive compensation earned for past service under the Company's variable compensation programs, employees may receive restricted Class A common stock in lieu of cash payments. These restricted Class A common stock shares are issued to an irrevocable trust and are not returnable to the Company. No such shares were issued in 2019, 2018 and 2017. As of December 31, 2019 and 2018, the Company had 9,155 vested shares of the undistributed restricted stock issued to the trust.

#### *Employee Restricted Stock Units*

In connection with the announcement in June 2019 that the Company's Executive Chairman would retire on December 31, 2019 from all positions with the Company, including its Board of Directors, the Company and its Executive Chairman entered into a consulting agreement to provide consulting services through January 1, 2022. Pursuant to the consulting agreement, the Company granted the Executive Chairman 87,847 RSUs with a grant date fair value of \$6.83 per share. The grant date fair value of the award was based on the closing price of the Class A common stock on the New York Stock Exchange on the date of grant. The RSUs will vest equally on each of January 1, 2020, July 1, 2020, January 1, 2021, July 1, 2021 and January 1, 2022, subject to the individual's continued employment through December 31, 2019 and providing consulting services through January 1, 2022. For the year ended December 31, 2019, the Company recognized \$274 of compensation expense related to employee restricted stock units. As of December 31, 2019, the Company had 87,847 employee restricted stock units outstanding.

## Director Restricted Stock Units

Compensation costs for RSU awards subject only to service conditions are measured at the closing stock price on the dates of grant and are recognized as expense on a straight-line basis over the requisite service periods for the awards, as adjusted for changes in estimated, and ultimately actual, forfeitures. Compensation costs for RSUs that do not require future service conditions are expensed immediately.

The Company's non-employee directors are compensated in both cash and RSUs. RSUs awarded under the Company's 2014 Plan vest immediately on the award grant date and are convertible into shares of Class A common stock. For RSUs granted under the Company's 2014 Plan and 2011 Plan, the RSUs are convertible into shares of Class A common stock at the later of the date the non-employee director ceases to be a member of the Company's Board or the first anniversary of the grant date. For RSUs granted under prior long-term incentive plans, the RSUs are convertible into shares of Class A common stock one year after the non-employee director ceases to be a member of the Company's Board. The RSUs do not have any voting rights but are entitled to cash dividend equivalent payments. As of December 31, 2019, the Company had 248,731 non-employee director RSUs outstanding. A summary of the non-employee director RSUs grants is presented below for the periods indicated:

	December 31,		
	2019	2018	2017
RSUs granted	57,970	42,402	33,540
Grant date fair value	\$ 6.90	\$ 11.32	\$ 14.31

The grant date fair value is based on the closing price of the Class A common stock on the New York Stock Exchange on the date of grant. For the years ended December 31, 2019, 2018 and 2017, the Company recognized \$466, \$480 and \$491, respectively, of director fees related to these RSUs. For the year ended December 31, 2019, the intrinsic value of RSUs that were converted into shares of Class A common stock were \$603. There were no RSUs that were converted into shares of Class A common stock for the years ended December 31, 2018 and 2017.

### Note 15. Financial Instruments with Off-Balance-Sheet Risk and Credit Risk

As of December 31, 2019, the Company did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance, or special purpose or variable interest entities ("VIEs"), established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. The Company's economic interests held in unconsolidated VIEs are limited in nature to those of a passive holder of MBS issued by a securitization trust. As of December 31, 2019, the Company had not consolidated for financial reporting purposes any securitization trusts as the Company does not have the power to direct the activities that most significantly impact the economic performance of such entities. Further, as of December 31, 2019, the Company had not guaranteed any obligations of unconsolidated entities or entered into any commitment or intent to provide funding to any such entities.

**Note 16. Quarterly Data (Unaudited)**

The following tables set forth selected information for each of the fiscal quarters during the years ended December 31, 2019 and 2018. The selected quarterly data is derived from unaudited financial statements of the Company and has been prepared on the same basis as the annual, audited financial statements to include, in the opinion of management, all adjustments (consisting of only normal recurring adjustments) necessary for fair statement of the results for such periods.

The sum of quarterly earnings per share amounts may not equal full year earnings per share amounts due to differing average outstanding shares amounts for the respective periods.

	Fiscal Year 2019				
	Total Year	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest income	\$ 123,478	\$ 28,255	\$ 28,674	\$ 32,717	\$ 33,832
Interest expense	97,250	21,218	23,982	26,135	25,915
Net interest income	26,228	7,037	4,692	6,582	7,917
Investment advisory fee income	332	82	—	—	250
Investment gain (loss), net	2,197	23,308	(8,231)	(26,683)	13,803
General and administrative expenses	15,015	3,017	4,198	3,424	4,376
Net income (loss)	13,742	27,410	(7,737)	(23,525)	17,594
Dividend on preferred stock	(2,600)	(774)	(774)	(774)	(278)
Net income (loss) available (attributable) to common stock	<u>\$ 11,142</u>	<u>\$ 26,636</u>	<u>\$ (8,511)</u>	<u>\$ (24,299)</u>	<u>\$ 17,316</u>
Basic earnings (loss) per common share	\$ 0.31	\$ 0.73	\$ (0.23)	\$ (0.67)	\$ 0.52
Diluted earnings (loss) per common share	\$ 0.31	\$ 0.72	\$ (0.23)	\$ (0.67)	\$ 0.52

	Fiscal Year 2018				
	Total Year	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest income	\$ 130,953	\$ 37,174	\$ 32,864	\$ 30,055	\$ 30,860
Interest expense	84,825	26,550	22,526	19,193	16,556
Net interest income	46,128	10,624	10,338	10,862	14,304
Investment loss, net	(123,822)	(68,910)	(2,257)	(4,516)	(48,139)
General and administrative expenses	13,370	1,658	3,954	3,461	4,297
(Loss) income before income taxes	(91,064)	(59,944)	4,127	2,885	(38,132)
Income tax provision (benefit)	733	(33,639)	9,628	6,493	18,251
Net loss	(91,797)	(26,305)	(5,501)	(3,608)	(56,383)
Dividend on preferred stock	(590)	(153)	(151)	(149)	(137)
Net loss attributable to common stock	<u>\$ (92,387)</u>	<u>\$ (26,458)</u>	<u>\$ (5,652)</u>	<u>\$ (3,757)</u>	<u>\$ (56,520)</u>
Basic loss per common share	\$ (3.18)	\$ (0.87)	\$ (0.19)	\$ (0.13)	\$ (2.00)
Diluted loss per common share	\$ (3.18)	\$ (0.87)	\$ (0.19)	\$ (0.13)	\$ (2.00)

**ARLINGTON ASSET INVESTMENT CORP.****DESCRIPTION OF SECURITIES REGISTERED PURSUANT TO SECTION 12  
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED****General**

In this Exhibit 4.15, “we”, “us”, “our”, or “the Company”, refers to Arlington Asset Investment Corp.

As of December 31, 2019, the Company had six classes of securities registered under Section 12 of the Securities Exchange Act, as amended (the “Exchange Act”): our Class A common stock, par value \$0.01 per share (the “Class A common stock”), our 7.00% Series B Cumulative Perpetual Redeemable Preferred Stock, par value \$0.01 per share (the “Series B Preferred Stock”), our 8.250% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, par value \$0.01 per share (the “Series C Preferred Stock”), our 6.625% Senior Notes due 2023 (the “6.625% Notes”), our 6.75% Senior Notes due 2025 (the “6.75% Notes”) and rights to purchase Series A junior preferred stock (as defined below).

**Description of Capital Stock**

The Company has authorized common share capital of 450,000,000 shares of Class A common stock and 100,000,000 shares of Class B common stock, par value \$0.01 per share (the “Class B common stock”). As of December 31, 2019, there were 36,755,387 outstanding shares of Class A common stock and no outstanding shares of Class B common stock. The Company has authorized preferred share capital of (i) 100,000 shares designated as Series A Preferred Stock that is unissued; (ii) 2,000,000 shares designated as Series B Preferred Stock; (iii) 2,500,000 shares designated as Series C Preferred Stock; and (iv) 20,400,000 shares of undesignated preferred stock. As of December 31, 2019, there were no shares of Series A Preferred Stock outstanding, 354,039 shares of Series B Preferred Stock outstanding and 1,200,000 shares of Series C preferred Stock outstanding.

The following description of the terms of our Class A common stock, Series B Preferred Stock and Series C Preferred Stock are not complete and are qualified in their entirety by reference to our amended and restated articles of incorporation, as amended, and our amended and restated bylaws, as amended, each of which is incorporated by reference as exhibits to the Annual Report on Form 10-K of which this Exhibit 4.15 is a part.

**Common Stock**

Subject to any preferential or other rights of any outstanding series of preferred stock that may be designated by our Board of Directors, the holders of shares of common stock are entitled to receive such dividends as may be declared from time to time by our Board of Directors from funds available therefor. All decisions regarding the declaration and payment of dividends will be at the discretion of our Board of Directors and will be evaluated on a quarterly basis in light of our financial condition, earnings, growth prospects, funding requirements, applicable law and other factors our Board of Directors deems relevant.

The holders of shares of Class A common stock are entitled to one vote for each share on all matters voted on by shareholders. Each of the holders of Class A common stock possess all voting power, except as otherwise required by law or provided in any resolution adopted by our Board of Directors with respect to any series of our preferred stock. Our Board of Directors consists of five directors. The directors are elected at each annual meeting of shareholders. Provided a quorum has been properly established in accordance with our bylaws, the holders of a majority of shares of common stock voting for the election of our directors can elect all of the directors, if they choose to do so, subject to any rights of the holders of preferred stock to elect directors, provided that in a contested director election (*i.e.*, where the number of nominees exceeds the number of directors to be elected at such meeting), the directors will be elected by the vote of a plurality of the shares represented in person or by proxy at any such meeting. Except for directors elected by the holders of outstanding shares of preferred stock as a separate voting group, any director may be removed from office with or without cause by the affirmative vote of the holders of at least two-

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thirds of the voting power of all outstanding shares of the company entitled to vote generally in the election of directors. There are no cumulative voting rights.

Subject to the rights of any outstanding series of preferred stock and except as otherwise required by law or pursuant to the listing standards of the exchange on which our securities are listed, in all matters other than the election of directors, certain amendments of our bylaws or certain provisions of our articles of incorporation, the affirmative vote of the holders of a majority of shares of common stock present in person or represented by proxy at a meeting of shareholders and entitled to vote on the subject matter is required for approval, provided a quorum is established. For more information regarding the voting rights of our capital stock, see “Important Provisions of Virginia Law and Our Articles of Incorporation, Bylaws and Shareholder Rights Agreement.”

When we issue shares of our common stock, for and in receipt of consideration approved by our Board of Directors, the shares will be fully paid and nonassessable, which means that the full purchase price of the shares will have been paid and holders of the shares will not be assessed any additional monies for the shares. There may be restrictions imposed by applicable securities laws on any transfer of shares of our common stock. Holders of our Class A common stock have no redemption rights, conversion rights or preemptive rights to purchase or subscribe for our securities. There are no redemption provisions or sinking fund provisions applicable to our common stock.

In the event of our liquidation, dissolution or winding up, the holders of Class A common stock are entitled to share ratably in all of our assets that are legally available for distribution after payment of or adequate provision for all of our known debts and other liabilities and subject to any preferential rights of holders of preferred stock, if any preferred stock is outstanding at such time.

The rights, preferences and privileges of the holders of our common stock are subject to, and may be adversely affected by, the rights of the holders of any series of preferred stock that we may designate and issue in the future.

Our common stock is traded on the New York Stock Exchange (the “NYSE”) under the symbol “AI.” The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company.

### **7.00%Series B Cumulative Perpetual Redeemable Preferred Stock**

#### *Maturity*

The Series B Preferred Stock has no stated maturity and will not be subject to any sinking fund. Shares of the Series B Preferred Stock will remain outstanding indefinitely unless repurchased or redeemed by us. We are not required to set apart for payment the funds to redeem the Series B Preferred Stock.

#### *Ranking*

The Series B Preferred Stock ranks, with respect to rights to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up:

- senior to all classes or series of our common stock and any other Junior Stock we may issue;
- on a parity with our Series C Preferred Stock and any other Parity Stock we may issue;
- junior to any Senior Stock we may issue; and
- effectively junior to all of our existing and future indebtedness (including indebtedness convertible into or exchangeable for our common stock or preferred stock) and the indebtedness of our existing and future subsidiaries.



## Dividends

Holders of shares of the Series B Preferred Stock are entitled to receive, when, as and if authorized by our Board of Directors and declared by us, out of funds legally available for the payment of dividends, cumulative cash dividends at the rate of 7.00% of the \$25.00 per share liquidation preference per annum (equivalent to \$1.75 per annum per share). Dividends on the Series B Preferred Stock will accumulate daily and be cumulative and will be payable quarterly in arrears on the 30th day of each December, March, June and September (each, a “dividend payment date”); provided that if any dividend payment date is not a business day, as defined in the articles of amendment designating the Series B Preferred Stock, then the dividend which would otherwise have been payable on that dividend payment date may be paid on the next succeeding business day with the same force and effect as if paid on such dividend payment date. No interest, additional dividends or sums in lieu of interest will be payable for the period from and after that dividend payment date to that next succeeding business day. Any dividend payable on the Series B Preferred Stock, including dividends payable for any partial dividend period, will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as they appear on our stock records at the close of business on the applicable record date, which will be no fewer than ten days and no more than 35 days prior to the applicable dividend payment date, as shall be fixed by the Board of Directors (each, a “dividend record date”). The dividends payable on any dividend payment date shall include dividends accumulated to, but not including, such dividend payment date.

No dividends on shares of Series B Preferred Stock may be authorized by our Board of Directors or paid or set apart for payment by us at any time when the terms and provisions of any agreement of ours, including any agreement relating to our indebtedness, prohibits the authorization, payment or setting apart for payment thereof or provides that the authorization, payment or setting apart for payment thereof would constitute a breach of the agreement or a default under the agreement, or if the authorization, payment or setting apart for payment is restricted or prohibited by law. You should review the information appearing above under “Risk Factors-We may not be able to pay dividends or other distributions on the Series B Preferred Stock” for more information as to, among other things, other circumstances under which we may be unable to pay dividends on the Series B Preferred Stock.

Notwithstanding the foregoing, dividends on the Series B Preferred Stock will accumulate whether or not (i) the terms and provisions of any laws or agreements referred to in the preceding paragraph at any time prohibit the current payment of dividends, (ii) we have earnings, (iii) there are funds legally available for the payment of those dividends and (iv) those dividends are declared. No interest, or sum in lieu of interest, will be payable in respect of any dividend payment or payments on the Series B Preferred Stock which may be in arrears, and holders of Series B Preferred Stock will not be entitled to any dividends in excess of full cumulative dividends described above. Any dividend payment made on the Series B Preferred Stock will first be credited against the earliest accumulated but unpaid dividend due with respect to those shares.

Future dividends on our common stock and preferred stock, including the Series B Preferred Stock offered pursuant to this prospectus supplement, will be at the discretion of our Board of Directors and will depend on, among other things, our results of operations, cash flow from operations, financial condition and capital requirements, applicable law, any debt service requirements and any other factors our Board of Directors deems relevant. Accordingly, we cannot guarantee that we will be able to make cash distributions on the Series B Preferred Stock or what the actual dividends will be for any future period.

Except as noted below, unless full cumulative dividends on the Series B Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past dividend periods, no dividends (other than in shares of our common stock or other Junior Stock we may issue) may be declared or paid or set apart for payment upon our common stock or other Junior Stock or our Series C Preferred Stock or other Parity Stock we may issue and no other distribution may be declared or made upon our common stock or other Junior Stock or our Series C Preferred Stock or other Parity Stock we may issue. In addition, our common stock and other Junior Stock or Parity Stock we may issue may not be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such securities) by us (except by conversion into or exchange for shares of, or options, warrants or rights to purchase or subscribe for, our common stock or other Junior Stock we may issue or pursuant to an exchange offer made on the same terms to all holders of Series B Preferred Stock and all Parity Stock we may issue). The foregoing will not, however, prevent the redemption, purchase or acquisition by us of shares of any class or series of

stock for the purpose of enforcing restrictions on transfer and ownership of our stock contained in our articles of incorporation, or the redemption, purchase or acquisition by us of shares of our common stock for purposes of and in compliance with any incentive or benefit plan of ours.

When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) upon the Series C Preferred Stock and any Parity Stock we may issue, all dividends declared upon the Series B Preferred Stock, Series C Preferred Stock and such other Parity Stock must be declared pro rata so that the amount of dividends declared per share of Series B Preferred Stock, Series C Preferred Stock and such other Parity Stock will in all cases bear to each other the same ratio that accumulated dividends per share on the Series B Preferred Stock, Series C Preferred Stock and such other Parity Stock (which will not include any accrual in respect of unpaid dividends for prior dividend periods if such Parity Stock do not have a cumulative dividend) bear to each other. No interest, or sum of money in lieu of interest, will be payable in respect of any dividend payment or payments on the Series B Preferred Stock which may be in arrears.

#### *Liquidation Preference*

In the event of our voluntary or involuntary liquidation, dissolution or winding up, the holders of Series B Preferred Stock will be entitled to be paid out of the assets we have legally available for distribution to our stockholders, subject to the preferential rights of the holders of any Senior Stock, a liquidation preference of \$25.00 per share, plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the payment date, before any distribution of assets is made to holders of common stock or other Junior Stock we may issue; and the holders of Series B Preferred Stock will not be entitled to any further payment.

In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, our available assets are insufficient to pay the amount of the liquidating distributions on all outstanding shares of Series B Preferred Stock, Series C Preferred Stock and any other Parity Stock we may issue, then the holders of

Series B Preferred Stock, Series C Preferred Stock and such other Parity Stock will share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

Notice of any such liquidation stating the payment date or dates when, and the place or places where, the amounts distributable in each circumstance shall be payable, will be given no fewer than 30 days and no more than 60 days prior to the payment date, to each holder of record of Series B Preferred Stock at the address of such holder as it appears on our stock records. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series B Preferred Stock will have no right or claim to any of our remaining assets. The consolidation, conversion or merger of us with or into any other corporation, trust or entity or of any other entity with or into us, the sale, lease, transfer or conveyance of all or substantially all of our property or business or a statutory share exchange, will not be deemed to constitute a liquidation, dissolution or winding up of us (although such events may give rise to the mandatory redemption rights described below).

No distribution (other than as part of our dissolution), by dividend, redemption or other acquisition of shares of stock or otherwise, is permitted under Virginia law with respect to any share of any class or series of our stock, if we would not be able to pay our debts as they become due in the usual course of business, or if our total assets would be less than the sum of our total liabilities plus the amount that would be needed, if we were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the distribution.

#### *Redemption*

The Series B Preferred Stock is not redeemable by us prior to May 12, 2022, except as described below under “Mandatory Redemption” upon the occurrence of a Change of Control.

*Optional Redemption.* On and after May 12, 2022, we may, at our option, upon not less than 30 nor more than 60 days’ notice, redeem the Series B Preferred Stock, in whole or in part, at any time or from time to time, for

cash at a redemption price of \$25.00 per share, plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the redemption date, without interest.

*Mandatory Redemption.* Following a Change of Control the Company will redeem the Series B Preferred Stock, in whole but not in part, on the effective date of any such Change of Control, for cash at \$25.00 per share plus accumulated and unpaid dividends (whether or not declared). Any redemption pursuant to this provision will follow generally the procedures set forth below under “-Redemption Procedures.”

A “Change of Control” is deemed to occur when, after the original issuance of the Series B Preferred Stock, the following have occurred and are continuing:

- the acquisition by any person, including any syndicate or group deemed to be a “person” under Section 13(d)(3) of the Exchange Act, of beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of purchases, mergers or other acquisition transactions of our stock entitling that person to exercise more than 50% of the total voting power of all our stock entitled to vote generally in the election of our directors (except that such person will be deemed to have beneficial ownership of all securities that such person has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition); and
- following the closing of any transaction referred to in the bullet point above, neither we nor the acquiring or surviving entity has a class of common securities (or American Depositary Receipts representing such securities) listed on the NYSE, the NYSE American LLC or the Nasdaq Stock Market, or listed or quoted on an exchange or quotation system that is a successor to the NYSE, the NYSE American LLC or the Nasdaq Stock Market.

*Redemption Procedures.* In the event we redeem Series B Preferred Stock pursuant to our optional redemption right or mandatory redemption, the notice of redemption will be given to each holder of record of Series B Preferred Stock called for redemption at such holder’s address as it appears on our stock records and will state the following:

- the redemption date;
- the number of shares of Series B Preferred Stock to be redeemed;
- the redemption price;
- the place or places where certificates (if any) for the Series B Preferred Stock are to be surrendered for payment of the redemption price;
- that dividends on the shares to be redeemed will cease to accumulate on the redemption date; and
- if applicable, that such redemption is being made in connection with a Change of Control and, in that case, a brief description of the transaction or transactions constituting such Change of Control.

If less than all of the Series B Preferred Stock held by any holder is to be redeemed, the notice given to such holder shall also specify the number of shares of Series B Preferred Stock held by such holder to be redeemed. No failure to give such notice or any defect thereto or in the giving thereof will affect the validity of the proceedings for the redemption of any shares of Series B Preferred Stock, except as to the holder to whom notice was defective or not given.

Holders of shares of Series B Preferred Stock to be redeemed must surrender such shares at the place designated in the notice of redemption and will be entitled to the redemption price and any accumulated and unpaid dividends payable upon the redemption following the surrender. If notice of redemption of any shares of Series B Preferred Stock has been given and if we have irrevocably set apart for payment the funds necessary for redemption (including any accumulated and unpaid dividends) in trust for the benefit of the holders of the shares of Series B

Preferred Stock so called for redemption, then from and after the redemption date (unless we default in providing for the payment of the redemption price plus accumulated and unpaid dividends, if any), dividends will cease to accumulate on those shares of Series B Preferred Stock, those shares of Series B Preferred Stock will no longer be deemed outstanding and all rights of the holders of those shares will terminate, except the right to receive the redemption price plus accumulated and unpaid dividends, if any, payable upon redemption. If any redemption date is not a business day, then the redemption price and accumulated and unpaid dividends, if any, payable upon redemption may be paid on the next business day and no interest, additional dividends or other sums will accumulate on the amount payable for the period from and after that redemption date to that next business day. If less than all of the outstanding shares of Series B Preferred Stock are to be redeemed, the shares of Series B Preferred Stock to be redeemed will be selected pro rata (as nearly as may be practicable without creating fractional shares) or by lot. If such redemption is to be by lot and if, as a result of such redemption, any holder of Series B Preferred Stock would violate any other restriction or limitation of our stock set forth in our articles of incorporation, then, except as otherwise permitted in our articles of incorporation, we will redeem the requisite number of shares of Series B Preferred Stock of that holder such that the holder will not violate any restriction or limitation of our stock set forth in our articles of incorporation.

Immediately prior to any redemption of Series B Preferred Stock, we will pay, in cash, any accumulated and unpaid dividends to, but excluding, the redemption date, unless a redemption date falls after a dividend record date and prior to the corresponding dividend payment date, in which case each holder of Series B Preferred Stock at the close of business on such dividend record date will be entitled to the dividend payable on such shares on the corresponding dividend payment date notwithstanding the redemption of such shares before such dividend payment date. Except as provided above, we will make no payment or allowance for unpaid dividends, whether or not in arrears, on shares of the Series B Preferred Stock to be redeemed.

Unless full cumulative dividends on all shares of Series B Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof has been or contemporaneously is set apart for payment for all past dividend periods, no shares of Series B Preferred Stock may be redeemed unless all outstanding shares of Series B Preferred Stock are simultaneously redeemed, and we may not purchase or otherwise acquire directly or indirectly any shares of Series B Preferred Stock (except by conversion into or exchange for shares of, or options, warrants or rights to purchase or subscribe for, our common stock or other Junior Stock we may issue or pursuant to a purchase or exchange offer made on the same terms to all holders of Series B Preferred Stock); provided, however, that the foregoing will not prevent the redemption, purchase or acquisition by us of shares of Series B Preferred Stock for the purpose of enforcing restrictions on ownership and transfer of our stock contained in our articles of incorporation.

Subject to applicable law, we may purchase shares of Series B Preferred Stock in the open market, by tender or by privately negotiated transactions. Any shares of Series B Preferred Stock that we acquire, by redemption or otherwise, shall be reclassified as authorized but unissued shares of preferred stock, without designation as to class or series, and may thereafter be issued as any class or series of preferred stock.

#### *No Conversion Rights*

The Series B Preferred Stock is not convertible into or exchangeable for any other property or securities of the Company.

#### *Voting Rights*

Holders of Series B Preferred Stock have no voting rights, except as set forth below.

Whenever dividends on any shares of Series B Preferred Stock are in arrears for six or more full quarterly dividend periods, whether or not consecutive, the number of directors constituting our Board of Directors will be automatically increased by two (if not already increased by two by reason of the election of directors by the holders of any other class or series of preferred stock we may issue and upon which like voting rights have been conferred and are exercisable, including the Series C Preferred Stock) and the holders of Series B Preferred Stock, voting as a single class with holders of the Series C Preferred Stock and all other classes or series of Parity Stock we may issue and upon which like voting rights have been conferred and are exercisable, will be entitled to vote for the election of

those two additional directors at a special meeting called by us at the request of the holders of record of at least 25% of the outstanding shares of Series B Preferred Stock, Series C Preferred Stock and all other classes or series of preferred stock we may issue and upon which like voting rights have been conferred and are exercisable to be held no later than 90 days after our receipt of such request (unless the request is received less than 90 days before the date fixed for the next annual or special meeting of our stockholders, in which case, such vote will be held at the earlier of the next annual or special meeting of the stockholders to the extent permitted by applicable law), and at each subsequent annual meeting until all dividends accumulated on the Series B Preferred Stock for all past dividend periods and the then current dividend period will have been fully paid. In that case, the right of holders of Series B Preferred Stock to elect any directors will cease and, unless there are other classes or series of our preferred stock upon which like voting rights have been conferred and are exercisable, the term of office of any directors elected by holders of Series B Preferred Stock will immediately terminate and the number of directors constituting the Board of Directors will be reduced accordingly. For the avoidance of doubt, in no event will the total number of directors elected by holders of Series B Preferred Stock (voting together as a single class with holders of Series C Preferred Stock and all other classes or series of preferred stock we may issue and upon which like voting rights have been conferred and are exercisable) pursuant to these voting rights exceed two. The directors elected by the holders of the Series B Preferred Stock and the holders of the Series C Preferred Stock and all other classes or series of preferred stock upon which like voting rights have been conferred and are exercisable will be elected by a plurality of the votes cast by the holders of the outstanding shares of Series B Preferred Stock when they have the voting rights described in this paragraph, the Series C Preferred Stock and any other classes or series of preferred stock we may issue and upon which like voting rights have been conferred and are exercisable (voting together as a single class) to serve until our next annual meeting of stockholders and until their successors are duly elected and qualified or until such directors' right to hold the office terminates as described above, whichever occurs earlier.

On each matter on which holders of Series B Preferred Stock are entitled to vote, each share of Series B Preferred Stock will be entitled to one vote, except that when shares of any other class or series of preferred stock we may issue, including the Series C Preferred Stock, have the right to vote with the Series B Preferred Stock as a single class on any matter, the Series B Preferred Stock, the Series C Preferred Stock and the shares of each such other class or series will have one vote for each \$25.00 of liquidation preference (excluding accumulated dividends). If, at any time when the voting rights conferred upon the Series B Preferred Stock are exercisable, any vacancy in the office of a director elected by the holders of Series C Preferred Stock and any other classes or series of preferred stock upon which like voting rights have been conferred and are exercisable will occur, then such vacancy may be filled only by the remaining such director or by vote of the holders of the outstanding Series B Preferred Stock, Series C Preferred Stock and any other classes or series of preferred stock upon which like voting rights have been conferred and are exercisable.

Any director elected by holders of shares of Series B Preferred Stock, Series C Preferred Stock and any class or series of preferred stock we may issue upon which like voting rights have been conferred and are exercisable may be removed at any time, with or without cause by the vote of, and may not be removed otherwise than by the vote of, the holders of record of a majority of the outstanding shares of Series B Preferred Stock, Series C Preferred Stock and any class or series of preferred stock we may issue when they have the voting rights described above (voting as a single class with all other classes or series of preferred stock we may issue upon which like voting rights have been conferred and are exercisable).

So long as any shares of Series B Preferred Stock remain outstanding, we will not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of Series B Preferred Stock outstanding at the time, voting together as a single class with the Series C Preferred Stock and all classes or series of Parity Stock we may issue and upon which like voting rights have been conferred and are exercisable, (i) authorize, create, or increase the authorized or issued amount of, any class or series of Senior Stock or reclassify any of our authorized stock into such shares, or create or authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares or (ii) amend, alter or repeal the provisions of our articles of incorporation, whether by merger, conversion, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the Series B Preferred Stock (each, an "Event"); provided, however, with respect to the occurrence of any Event set forth in clause (ii) above, so long as the Series B Preferred Stock remains outstanding with the terms thereof materially unchanged or the holders of Series B Preferred Stock receive shares of stock or other equity interests with rights, preferences, privileges and voting powers substantially the same as those of the Series B Preferred Stock, taking into account that upon the occurrence of an Event we may not be the successor entity, the occurrence of any

such Event will not be deemed to materially and adversely affect the rights, preferences, privileges or voting power of holders of Series B Preferred Stock; and, provided further, that any increase in the amount of the authorized Series B Preferred Stock or the creation or issuance, or any increase in the amounts authorized of any Parity Stock or Junior Stock will not be deemed to materially and adversely affect the rights, preferences, privileges or voting powers of holders of Series B Preferred Stock. Notwithstanding the foregoing, if any amendment, alteration or repeal of any provision of our articles of incorporation would materially and adversely affect the rights, preferences, privileges or voting rights of the Series B Preferred Stock disproportionately relative to other classes or series of Parity Stock, then the affirmative vote or consent of the holders of at least two-thirds of the outstanding shares of Series B Preferred Stock (voting as a separate class) shall also be required.

The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of Series B Preferred Stock have been redeemed or called for redemption upon proper notice and sufficient funds have been irrevocably set apart to effect such redemption.

Except as expressly stated in the articles of amendment designating the Series B Preferred Stock, the Series B Preferred Stock will not have any relative, participating, optional or other special voting rights or powers and the consent of the holders thereof will not be required for the taking of any corporate action. The holders of Series B Preferred Stock will have exclusive voting rights on any amendment to our articles of incorporation that would alter the contract rights, as expressly set forth in the articles of incorporation, of only the Series B Preferred Stock.

#### *Information Rights*

During any period in which we are not subject to Section 13 or 15(d) of the Exchange Act and any shares of Series B Preferred Stock are outstanding, we will use our best efforts to (i) transmit through our website at <http://www.arlingtonasset.com> (or other permissible means under the Exchange Act) copies of the Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q that we would have been required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act if we were subject thereto (other than any exhibits that would have been required). We will use our best efforts to provide such reports on our website within 15 days after the respective dates by which we would have been required to file such reports with the SEC if we were subject to Section 13 or 15(d) of the Exchange Act and we were a “non-accelerated filer” within the meaning of the Exchange Act.

#### *Preemptive Rights*

No holders of Series B Preferred Stock will, as holders of Series B Preferred Stock, have any preemptive rights to purchase or subscribe for our common stock or any of our other securities.

#### *Listing*

The Series C Preferred Stock is listed on the NYSE under the symbol “AI PrB”.

#### *Transfer Agent*

The transfer agent for our Series B Preferred Stock is American Stock Transfer & Trust Company, LLC

#### **8.250% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock**

The terms of the Series C Preferred Stock are substantially similar to the terms of the Series B Preferred Stock, other than as follows:

#### *Maturity*

The Series C Preferred Stock has no stated maturity and will not be subject to any sinking fund or mandatory redemption. Shares of the Series C Preferred Stock will remain outstanding indefinitely unless we decide to redeem

or otherwise repurchase them or they become convertible and are converted as described below under “—Conversion Rights.” We are not required to set apart for payment the funds to redeem the Series C Preferred Stock.

### *Dividends*

Holders of shares of the Series C Preferred Stock are entitled to receive, when, as and if authorized by our board of directors and declared by us, out of funds legally available for the payment of dividends, cumulative cash dividends. The initial dividend rate for the Series C Preferred Stock from and including the date of original issuance to, but not including, March 30, 2024 (the “Fixed Rate Period”) will be 8.250% of the \$25.00 per share liquidation preference per annum (equivalent to \$2.0625 per annum per share). On and after March 30, 2024 (the “Floating Rate Period”), dividends on the Series C Preferred Stock will accumulate at a percentage of the \$25.00 liquidation preference equal to an annual floating rate of the Three-Month LIBOR Rate plus a spread of 5.664%. Dividends on the Series C Preferred Stock will accumulate daily and be cumulative from, and including, the date of original issue and will be payable quarterly in arrears on the 30th day of each March, June, September and December (each, as may be modified as provided below, a “dividend payment date”). If any dividend payment date is not a business day, as defined in the articles of amendment designating the Series C Preferred Stock, then the dividend which would otherwise have been payable on that dividend payment date may be paid on the next succeeding business day with the same force and effect as if paid on such dividend payment date, and no interest, additional dividends or sums in lieu of interest will be payable for the period from and after that dividend payment date to that next succeeding business day. Dividends payable on the Series C Preferred Stock for the Fixed Rate Period, including dividends payable for any partial Dividend Period, will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends payable on the Series C Preferred Stock for the Floating Rate Period, including dividends payable for any partial Dividend Period, will be computed based on the actual number of days in a Dividend Period and a 360-day year. Dividends will be payable to holders of record as they appear on our stock records at the close of business on the applicable record date, which will be no fewer than ten days and no more than 35 days prior to the applicable dividend payment date, as shall be fixed by the Board of Directors (each, a “dividend record date”). The dividends payable on any dividend payment date shall include dividends accumulated to, but not including, such dividend payment date.

For each Dividend Period during the Floating Rate Period, LIBOR (the London interbank offered rate) (“Three-Month LIBOR Rate”) will be determined by us, as of the applicable Dividend Determination Date (as defined below), in accordance with the following provisions:

- LIBOR will be the rate (expressed as a percentage per year) for deposits in U.S. dollars having an index maturity of three months, in amounts of at least \$1,000,000, as such rate appears on “Reuters Page LIBOR01” at approximately 11:00 a.m. (London time) on the relevant Dividend Determination Date; or
- if no such rate appears on “Reuters Page LIBOR01” or if the “Reuters Page LIBOR01” is not available at approximately 11:00 a.m. (London time) on the relevant Dividend Determination Date, then we will select four nationally-recognized banks in the London interbank market and request that the principal London offices of those four selected banks provide us with their offered quotation for deposits in U.S. dollars for a period of three months, commencing on the first day of the applicable Dividend Period, to prime banks in the London interbank market at approximately 11:00 a.m. (London time) on that Dividend Determination Date for the applicable Dividend Period. Offered quotations must be based on a principal amount equal to an amount that, in our discretion, is representative of a single transaction in U.S. dollars in the London interbank market at that time. If at least two quotations are provided, the Three-Month LIBOR Rate for such Dividend Period will be the arithmetic mean (rounded upward if necessary, to the nearest 0.00001 of 1%) of those quotations. If fewer than two quotations are provided, the Three-Month LIBOR Rate for such Dividend Period will be the arithmetic mean (rounded upward if necessary, to the nearest 0.00001 of 1%) of the rates quoted at approximately 11:00 a.m. (New York City time) on that Dividend Determination Date for such Dividend Period by three nationally-recognized banks in New York, New York selected by us, for loans in U.S. dollars to nationally-recognized European banks (as selected by us), for a period of three months commencing on the first day of such Dividend Period. The rates quoted must be based on an amount that, in our discretion, is representative of a single transaction in U.S. dollars in that market at that time. If no quotation is provided as described above, then if a Calculation Agent (as defined below) has not been appointed at such time, we will

appoint a Calculation Agent who shall, after consulting such sources as it deems comparable to any of the foregoing quotations or display page, or any such source as it deems reasonable from which to estimate LIBOR or any of the foregoing lending rates, shall determine LIBOR for the second London Business Day immediately preceding the first day of such distribution period in its sole discretion. If the Calculation Agent is unable or unwilling to determine LIBOR as provided in the immediately preceding sentence, then LIBOR will be equal to Three-Month LIBOR for the then current Dividend Period, or, in the case of the first Dividend Period in the Floating Rate Period, the most recent dividend rate that would have been determined based on the last available Reuters Page LIBOR01 had the Floating Rate Period been applicable prior to the first Dividend Period in the Floating Rate Period.

Notwithstanding the foregoing, if we determine on the relevant Dividend Determination Date that the LIBOR base rate has been discontinued, then we will appoint a Calculation Agent and the Calculation Agent will consult with an investment bank of national standing to determine whether there is an industry accepted substitute or successor base rate to Three-Month LIBOR Rate. If, after such consultation, the Calculation Agent determines that there is an industry accepted substitute or successor base rate, the Calculation Agent shall use such substitute or successor base rate. In such case, the Calculation Agent in its sole discretion may (without implying a corresponding obligation to do so) also implement changes to the business day convention, the definition of business day, the Dividend Determination Date and any method for obtaining the substitute or successor base rate if such rate is unavailable on the relevant Business Day, in a manner that is consistent with industry accepted practices for such substitute or successor base rate. Unless the Calculation Agent determines that there is an industry accepted substitute or successor base rate as so provided above, the Calculation Agent will, in consultation with us, follow the steps specified in the second bullet point in the immediately preceding paragraph in order to determine Three-Month LIBOR Rate for the applicable Dividend Period.

“Calculation Agent” shall mean a third party independent financial institution of national standing with experience providing such services, which has been selected by us.

“Dividend Determination Date” means the London Business Day (as defined below) immediately preceding the first date of the applicable Dividend Period.

“Dividend Period” means the period from, and including, a dividend payment date to, but excluding, the next succeeding dividend payment date, except for the initial Dividend Period, which will be the period from, and including, the original issue date of the Series C Preferred Stock to, but excluding, June 30, 2019.

“London Business Day” means any day on which dealings in deposits in U.S. dollars are transacted in the London interbank market.

“Reuters Page LIBOR01” means the display so designated on the Reuters 3000 Xtra (or such other page as may replace the LIBOR01 page on that service, or such other service as may be nominated by the ICE Benchmark Administration Limited, or ICE, or its successor, or such other entity assuming the responsibility of ICE or its successor in the event ICE or its successor no longer does so, as the successor service, for the purpose of displaying London interbank offered rates for U.S. dollar deposits).

No dividends on shares of Series C Preferred Stock may be authorized by our board of directors or paid or set apart for payment by us at any time when the terms and provisions of any agreement of ours, including any agreement relating to our indebtedness, prohibit the authorization, payment or setting apart for payment thereof or provide that the authorization, payment or setting apart for payment thereof would constitute a breach of the agreement or a default under the agreement, or if the authorization, payment or setting apart for payment is restricted or prohibited by law. You should review the information appearing above under “Risk Factors—We may not be able to pay dividends or other distributions on the Series C Preferred Stock” for more information as to, among other things, other circumstances under which we may be unable to pay dividends on the Series C Preferred Stock.

Notwithstanding the foregoing, dividends on the Series C Preferred Stock will accumulate whether or not (i) the terms and provisions of any laws or agreements referred to in the preceding paragraph at any time prohibit the current payment of dividends, (ii) we have earnings, (iii) there are funds legally available for the payment of those dividends and (iv) those dividends are declared. No interest, or sum in lieu of interest, will be payable in respect of



any dividend payment or payments on the Series C Preferred Stock which may be in arrears, and holders of Series C Preferred Stock will not be entitled to any dividends in excess of full cumulative dividends described above. Any dividend payment made on the Series C Preferred Stock will first be credited against the earliest accumulated but unpaid dividend due with respect to those shares.

Future dividends on our common stock and preferred stock, including the Series C Preferred Stock offered pursuant to this prospectus supplement, will be at the discretion of our board of directors and will depend on, among other things, our results of operations, cash flow from operations, financial condition and capital requirements, the annual distribution requirements under the real estate investment trust, or REIT, provisions of the Internal Revenue Code of 1986, applicable law, any debt service requirements and any other factors our board of directors deems relevant. Accordingly, we cannot guarantee that we will be able to make cash distributions on the Series C Preferred Stock or what the actual dividends will be for any future period.

Except as noted below, unless full cumulative dividends on the Series C Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past Dividend Periods, no dividends (other than in shares of our common stock or other Junior Stock we may issue) may be declared or paid or set apart for payment upon our common stock or other Junior Stock or our Series B Preferred Stock or other Parity Stock we may issue and no other distribution may be declared or made upon our common stock or other Junior Stock or our Series B Preferred Stock or other Parity Stock we may issue. In addition, our common stock and other Junior Stock or Parity Stock we may issue may not be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such securities) by us (except by conversion into or exchange for shares of, or options, warrants or rights to purchase or subscribe for, our common stock or other Junior Stock we may issue or pursuant to an exchange offer made on the same terms to all holders of Series C Preferred Stock and all Parity Stock). The foregoing will not, however, prevent the redemption, purchase or acquisition by us of shares of any class or series of stock for the purpose of enforcing restrictions on transfer and ownership of our stock contained in our articles of incorporation, or the redemption, purchase or acquisition by us of shares of our common stock for purposes of and in compliance with any incentive or benefit plan of ours.

When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) upon the Series B Preferred Stock and any other Parity Stock we may issue, all dividends declared upon the Series B Preferred Stock, Series C Preferred Stock and such other Parity Stock must be declared pro rata so that the amount of dividends declared per share of Series B Preferred Stock, Series C Preferred Stock and such other Parity Stock will in all cases bear to each other the same ratio that accumulated dividends per share on the Series B Preferred Stock, Series C Preferred Stock and such Parity Stock (which will not include any accrual in respect of unpaid dividends for prior Dividend Periods if such other Parity Stock do not have a cumulative dividend) bear to each other. No interest, or sum of money in lieu of interest, will be payable in respect of any dividend payment or payments on the Series C Preferred Stock which may be in arrears.

#### *Liquidation Preference*

In the event of our voluntary or involuntary liquidation, dissolution or winding up, the holders of Series C Preferred Stock will be entitled to be paid out of the assets we have legally available for distribution to our stockholders, subject to the preferential rights of the holders of any Senior Stock, a liquidation preference of \$25.00 per share, plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the payment date, before any distribution of assets is made to holders of common stock or other Junior Stock we may issue; and the holders of Series C Preferred Stock will not be entitled to any further payment.

In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, our available assets are insufficient to pay the amount of the liquidating distributions on all outstanding shares of Series B Preferred Stock, Series C Preferred Stock and any other Parity Stock we may issue, then the holders of Series B Preferred Stock, Series C Preferred Stock and such other Parity Stock will share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

Notice of any such liquidation stating the payment date or dates when, and the place or places where, the amounts distributable in each circumstance shall be payable, will be given no fewer than 30 days and no more than

60 days prior to the payment date, to each holder of record of Series C Preferred Stock at the address of such holder as it appears on our stock records. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series C Preferred Stock will have no right or claim to any of our remaining assets. The consolidation, conversion or merger of us with or into any other corporation, trust or entity or of any other entity with or into us, the sale, lease, transfer or conveyance of all or substantially all of our property or business or a statutory share exchange, will not be deemed to constitute a liquidation, dissolution or winding up of us (although such events may give rise to the special optional redemption and contingent conversion rights described below).

No distribution (other than as part of our dissolution), by dividend, redemption or other acquisition of shares of stock or otherwise, is permitted under Virginia law with respect to any share of any class or series of our stock, if we would not be able to pay our debts as they become due in the usual course of business, or if our total assets would be less than the sum of our total liabilities plus the amount that would be needed, if we were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the distribution.

#### *Redemption*

The Series C Preferred Stock is not redeemable by us prior to March 30, 2024, except under circumstances where it is necessary to preserve our qualification as a REIT for U.S. federal income tax purposes (please see “—Restrictions on Transfer and Ownership” below and except as described below under “—Special Optional Redemption” upon the occurrence of a Change of Control (as defined herein).

*Optional Redemption.* On and after March 30, 2024, we may, at our option, upon not less than 30 nor more than 60 days’ notice, redeem the Series C Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of \$25.00 per share, plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the redemption date, without interest.

*Special Optional Redemption.* Upon the occurrence of a Change of Control, we may, at our option, upon not less than 30 nor more than 60 days’ notice, redeem the Series C Preferred Stock, in whole or in part, within 120 days after the first date on which such Change of Control occurred, for cash at a redemption price of \$25.00 per share, plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the redemption date. If, prior to the Change of Control Conversion Date, we have provided notice of our election to redeem some or all of the shares of Series C Preferred Stock (whether pursuant to our optional redemption right described above under “—Optional Redemption” or this special optional redemption right), the holders of Series C Preferred Stock will not have the Change of Control Conversion Right (as defined below) described below under “—Conversion Rights” with respect to the shares called for redemption.

A “Change of Control” is deemed to occur when, after the original issuance of the Series C Preferred Stock, the following have occurred and are continuing:

- the acquisition by any person, including any syndicate or group deemed to be a “person” under Section 13(d)(3) of the Exchange Act, of beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of purchases, mergers or other acquisition transactions of our stock entitling that person to exercise more than 50% of the total voting power of all our stock entitled to vote generally in the election of our directors (except that such person will be deemed to have beneficial ownership of all securities that such person has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition); and
- following the closing of any transaction referred to in the bullet point above, neither we nor the acquiring or surviving entity has a class of common securities (or American Depositary Receipts representing such securities) listed on the NYSE, the NYSE American LLC or the Nasdaq Stock Market, or listed or quoted on an exchange or quotation system that is a successor to the NYSE, the NYSE American LLC or the Nasdaq Stock Market.

*Redemption Procedures.* In the event we elect to redeem Series C Preferred Stock pursuant to our optional redemption right or our special optional redemption right, the notice of redemption will be given to each holder of record of Series C Preferred Stock called for redemption at such holder's address as it appears on our stock records and will state the following:

- the redemption date;
- the number of shares of Series C Preferred Stock to be redeemed;
- the redemption price;
- the place or places where certificates (if any) for the Series C Preferred Stock are to be surrendered for payment of the redemption price;
- that dividends on the shares to be redeemed will cease to accumulate on the redemption date;
- if applicable, that such redemption is being made in connection with a Change of Control and, in that case, a brief description of the transaction or transactions constituting such Change of Control; and
- if such redemption is being made in connection with a Change of Control, that the holders of the shares of Series C Preferred Stock being so called for redemption will not be able to tender such shares of Series C Preferred Stock for conversion in connection with the Change of Control and that each share of Series C Preferred Stock tendered for conversion that is called, prior to the Change of Control Conversion Date, for redemption will be redeemed on the related date of redemption instead of converted on the Change of Control Conversion Date.

If less than all of the Series C Preferred Stock held by any holder is to be redeemed, the notice given to such holder shall also specify the number of shares of Series C Preferred Stock held by such holder to be redeemed. No failure to give such notice or any defect thereto or in the giving thereof will affect the validity of the proceedings for the redemption of any shares of Series C Preferred Stock, except as to the holder to whom notice was defective or not given.

Holders of shares of Series C Preferred Stock to be redeemed must surrender such shares at the place designated in the notice of redemption and will be entitled to the redemption price and any accumulated and unpaid dividends payable upon the redemption following the surrender. If notice of redemption of any shares of Series C Preferred Stock has been given and if we have irrevocably set apart for payment the funds necessary for redemption (including any accumulated and unpaid dividends) in trust for the benefit of the holders of the shares of Series C Preferred Stock so called for redemption, then from and after the redemption date (unless we default in providing for the payment of the redemption price plus accumulated and unpaid dividends, if any), dividends will cease to accumulate on those shares of Series C Preferred Stock, those shares of Series C Preferred Stock will no longer be deemed outstanding and all rights of the holders of those shares will terminate, except the right to receive the redemption price plus accumulated and unpaid dividends, if any, payable upon redemption. If any redemption date is not a business day, then the redemption price and accumulated and unpaid dividends, if any, payable upon redemption may be paid on the next business day and no interest, additional dividends or other sums will accumulate on the amount payable for the period from and after that redemption date to that next business day. If less than all of the outstanding shares of Series C Preferred Stock are to be redeemed, the shares of Series C Preferred Stock to be redeemed will be selected pro rata (as nearly as may be practicable without creating fractional shares) or by lot. If such redemption is to be by lot and if, as a result of such redemption, any holder of Series C Preferred Stock would own, or be deemed by virtue of certain attribution provisions of the Internal Revenue Code, to own, in excess of 9.9% of the outstanding shares of the Series C Preferred Stock, or violate any other restriction or limitation of our stock set forth in our articles of incorporation, then, except as otherwise permitted in our articles of incorporation, we will redeem the requisite number of shares of Series C Preferred Stock of that holder such that the holder will not own or be deemed by virtue of certain attribution provisions of the Internal Revenue Code, to own, subsequent to the redemption, in excess of 9.9% of the outstanding shares of the Series C Preferred Stock or violate any other restriction

or limitation of our stock set forth in our articles of incorporation. See “—Restrictions on Transfer and Ownership” in this prospectus supplement.

Immediately prior to any redemption of Series C Preferred Stock, we will pay, in cash, any accumulated and unpaid dividends to, but excluding, the redemption date, unless a redemption date falls after a dividend record date and prior to the corresponding dividend payment date, in which case each holder of Series C Preferred Stock at the close of business on such dividend record date will be entitled to the dividend payable on such shares on the corresponding dividend payment date notwithstanding the redemption of such shares before such dividend payment date. Except as provided above, we will make no payment or allowance for unpaid dividends, whether or not in arrears, on shares of the Series C Preferred Stock to be redeemed.

Unless full cumulative dividends on all shares of Series C Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof has been or contemporaneously is set apart for payment for all past Dividend Periods, no shares of Series C Preferred Stock may be redeemed unless all outstanding shares of Series C Preferred Stock are simultaneously redeemed, and we may not purchase or otherwise acquire directly or indirectly any shares of Series C Preferred Stock (except by conversion into or exchange for shares of, or options, warrants or rights to purchase or subscribe for, our common stock or other Junior Stock we may issue or pursuant to a purchase or exchange offer made on the same terms to all holders of Series C Preferred Stock and all Parity Stock); provided, however, that the foregoing will not prevent the redemption, purchase or acquisition by us of shares of Series C Preferred Stock for the purpose of enforcing restrictions on ownership and transfer of our stock contained in our articles of incorporation.

Subject to applicable law, we may purchase shares of Series C Preferred Stock in the open market, by tender or by privately negotiated transactions. Any shares of Series C Preferred Stock that we acquire, by redemption or otherwise, shall be reclassified as authorized but unissued shares of preferred stock, without designation as to class or series, and may thereafter be issued as any class or series of preferred stock.

#### *Conversion Rights*

Upon the occurrence of a Change of Control, each holder of Series C Preferred Stock will have the right (unless, prior to the Change of Control Conversion Date, we have provided notice of our election to redeem some or all of the shares of Series C Preferred Stock held by such holder as described above under “—Redemption,” in which case such holder will have the right only with respect to shares of Series C Preferred Stock that are not called for redemption) to convert some or all of the shares of the Series C Preferred Stock held by such holder (the “Change of Control Conversion Right”) on the Change of Control Conversion Date into a number of shares of our Class A common stock per share of Series C Preferred Stock (the “Class A Common Stock Conversion Consideration”) equal to the lesser of:

- the quotient obtained by dividing (i) the sum of the \$25.00 liquidation preference per share of Series C Preferred Stock, plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the Change of Control Conversion Date (unless the Change of Control Conversion Date is after a dividend record date and prior to the corresponding dividend payment date for the Series C Preferred Stock, in which case no additional amount for such accumulated and unpaid dividends to be paid on such dividend payment date will be included in this sum) by (ii) the Class A Common Stock Price, as defined below (such quotient, the “Conversion Rate”); and
- 6.0024, or the “Share Cap,” subject to certain adjustments as described below.

Notwithstanding anything in the articles of amendment designating the Series C Preferred Stock to the contrary and except as otherwise required by law, the persons who are the holders of record of shares of Series C Preferred Stock at the close of business on a dividend record date will be entitled to receive the dividend payable on the corresponding dividend payment date notwithstanding the conversion of those shares after such dividend record date and on or prior to such dividend payment date and, in such case, the full amount of such dividend will be paid on such dividend payment date to the persons who were the holders of record at the close of business on such dividend record date. Except as provided above, we will make no allowance for unpaid dividends that are not in arrears on the shares of Series C Preferred Stock to be converted.

The Share Cap is subject to pro rata adjustments for any share splits (including those effected pursuant to a distribution of our Class A common stock to existing holders of our Class A common stock), subdivisions or combinations (in each case, a “Share Split”) with respect to our Class A common stock as follows: the adjusted Share Cap as the result of a Share Split will be the number of shares of our Class A common stock that is equivalent to the product obtained by multiplying (i) the Share Cap in effect immediately prior to such Share Split by (ii) a fraction, the numerator of which is the number of shares of our Class A common stock outstanding immediately after giving effect to such Share Split and the denominator of which is the number of shares of our Class A common stock outstanding immediately prior to such Share Split.

For the avoidance of doubt, subject to the immediately succeeding sentence, the aggregate number of shares of our Class A common stock (or equivalent Alternative Conversion Consideration, as applicable) issuable or deliverable, as applicable, in connection with the exercise of the Change of Control Conversion Right will not exceed the product of the Share Cap times the aggregate number of shares of the Series C Preferred Stock issued and outstanding at the Change of Control Conversion Date (or equivalent Alternative Conversion Consideration, as applicable) (the “Exchange Cap”). The Exchange Cap is subject to pro rata adjustments for any share splits on the same basis as the corresponding adjustment to the Share Cap.

In the case of a Change of Control pursuant to which our Class A common stock is or will be converted into cash, securities or other property or assets (including any combination thereof) (the “Alternative Form Consideration”), a holder of Series C Preferred Stock will receive upon conversion of such shares of the Series C Preferred Stock the kind and amount of Alternative Form Consideration which such holder would have owned or been entitled to receive upon the Change of Control had such holder held a number of shares of our Class A common stock equal to the Class A Common Stock Conversion Consideration immediately prior to the effective time of the Change of Control (the “Alternative Conversion Consideration”). The Class A Common Stock Conversion Consideration or the Alternative Conversion Consideration, whichever shall be applicable to a Change of Control, is referred to as the “Conversion Consideration.”

If the holders of our Class A common stock have the opportunity to elect the form of consideration to be received in the Change of Control, the Conversion Consideration in respect of such Change of Control will be deemed to be the kind and amount of consideration actually received by holders of a majority of the outstanding shares of our Class A common stock that made or voted for such an election (if electing between two types of consideration) or holders of a plurality of the outstanding shares of our common stock that made or voted for such an election (if electing between more than two types of consideration), as the case may be, and will be subject to any limitations to which all holders of our common stock are subject, including, without limitation, pro rata reductions applicable to any portion of the consideration payable in such Change of Control.

We will not issue fractional shares of our Class A common stock upon the conversion of the Series C Preferred Stock in connection with a Change of Control. Instead, we will make a cash payment equal to the value of such fractional shares based upon the Class A Common Stock Price used in determining the Class A Common Stock Conversion Consideration for such Change of Control.

Within 15 days following the occurrence of a Change of Control, provided that we have not then exercised our right to redeem all shares of Series C Preferred Stock pursuant to the redemption provisions described above, we will provide to holders of Series C Preferred Stock a notice of occurrence of the Change of Control that describes the resulting Change of Control Conversion Right, which notice shall be delivered to the holders of record of the shares of Series C Preferred Stock to their addresses as they appear on our stock records. No failure to give such notice or any defect thereto or in the giving thereof will affect the validity of the proceedings for the conversion of any shares of Series C Preferred Stock except as to the holder to whom notice was defective or not given. This notice will state the following:

- the events constituting the Change of Control;
- the date of the Change of Control;
- the last date on which the holders of Series C Preferred Stock may exercise their Change of Control Conversion Right;

- the method and period for calculating the Class A Common Stock Price;
- the Change of Control Conversion Date;
- that if, prior to the Change of Control Conversion Date, we have provided notice of our election to redeem all or any shares of Series C Preferred Stock, holders of Series C Preferred Stock that are subject to such notice of redemption will not be able to convert the shares of Series C Preferred Stock called for redemption and such shares will be redeemed on the related redemption date, even if such shares have already been tendered for conversion pursuant to the Change of Control Conversion Right;
- if applicable, the type and amount of Alternative Conversion Consideration entitled to be received per share of Series C Preferred Stock;
- the name and address of the paying agent, transfer agent and conversion agent for the Series C Preferred Stock;
- the procedures that the holders of Series C Preferred Stock must follow to exercise the Change of Control Conversion Right (including procedures for surrendering shares of Series C Preferred Stock for conversion through the facilities of a Depositary (as defined below)), including the form of conversion notice to be delivered by such holders as described below; and
- the last date on which holders of Series C Preferred Stock may withdraw shares of Series C Preferred Stock surrendered for conversion and the procedures that such holders must follow to effect such a withdrawal.

Under such circumstances, we also will issue a press release containing such notice for publication on the Wall Street Journal, Business Wire, PR Newswire or Bloomberg Business News (or, if these organizations are not in existence at the time of issuance of the press release, such other news or press organization as is reasonably calculated to broadly disseminate the relevant information to the public), and post a notice on our website (if any), in any event prior to the opening of business on the first business day following any date on which we provide the notice described above to the holders of Series C Preferred Stock.

To exercise the Change of Control Conversion Right, the holders of Series C Preferred Stock will be required to deliver, on or before the close of business on the Change of Control Conversion Date, the certificates (if any) representing the shares of Series C Preferred Stock to be converted, duly endorsed for transfer (or, in the case of any shares of Series C Preferred Stock held in book-entry form through a Depositary or shares directly registered with the transfer agent, therefor, to deliver, on or before the close of business on the Change of Control Conversion Date, the shares of Series C Preferred Stock to be converted through the facilities of such Depositary or through such transfer agent, respectively), together with a written conversion notice in the form provided by us, duly completed, to our transfer agent. The conversion notice must state:

- the relevant Change of Control Conversion Date;
- the number of shares of Series C Preferred Stock to be converted; and
- that the shares of the Series C Preferred Stock are to be converted pursuant to the applicable provisions of the articles of amendment designating the Series C Preferred Stock.

The “Change of Control Conversion Date” is the date the Series C Preferred Stock is to be converted, which will be a business day selected by us that is no fewer than 20 days nor more than 35 days after the date on which we provide the notice described above to the holders of Series C Preferred Stock.

The “Class A Common Stock Price” is (i) if the consideration to be received in the Change of Control by the holders of our Class A common stock is solely cash, the amount of cash consideration per share of our Class A common stock or (ii) if the consideration to be received in the Change of Control by holders of our Class A common

stock is other than solely cash (x) the average of the closing sale prices per share of our Class A common stock (or, if no closing sale price is reported, the average of the closing bid and ask prices per share or, if more than one in either case, the average of the average closing bid and the average closing ask prices per share) for the ten consecutive trading days immediately preceding, but not including, the date on which such Change of Control occurred as reported on the principal U.S. securities exchange on which our Class A common stock is then traded, or (y) if our Class A common stock is not then listed for trading on a U.S. securities exchange, the average of the last quoted bid prices for our Class A common stock in the over-the-counter market as reported by OTC Markets Group or similar organization for the ten consecutive trading days immediately preceding, but not including, the date on which such Change of Control occurred.

Holders of Series C Preferred Stock may withdraw any notice of exercise of a Change of Control Conversion Right (in whole or in part) by a written notice of withdrawal delivered to our transfer agent prior to the close of business on the business day prior to the Change of Control Conversion Date. The notice of withdrawal delivered by any holder must state:

- the number of withdrawn shares of Series C Preferred Stock;
- if certificated shares of Series C Preferred Stock have been surrendered for conversion, the certificate numbers of the withdrawn shares of Series C Preferred Stock; and
- the number of shares of Series C Preferred Stock, if any, which remain subject to the holder's conversion notice.

Notwithstanding the foregoing, if any shares of Series C Preferred Stock are held in book-entry form through The Depository Trust Company ("DTC") or a similar depository (each, a "Depository"), the conversion notice and/or the notice of withdrawal, as applicable, must comply with applicable procedures, if any, of the applicable Depository.

Shares of Series C Preferred Stock as to which the Change of Control Conversion Right has been properly exercised and for which the conversion notice has not been properly withdrawn will be converted into the applicable Conversion Consideration in accordance with the Change of Control Conversion Right on the Change of Control Conversion Date, unless prior to the Change of Control Conversion Date we have provided notice of our election to redeem some or all of the shares of Series C Preferred Stock, as described above under "—Redemption," in which case only the shares of Series C Preferred Stock properly surrendered for conversion and not properly withdrawn that are not called for redemption will be converted as aforesaid. If we elect to redeem shares of Series C Preferred Stock that would otherwise be converted into the applicable Conversion Consideration on a Change of Control Conversion Date, such shares of Series C Preferred Stock will not be so converted and the holders of such shares will be entitled to receive on the applicable redemption date the redemption price described above under "—Redemption—Optional Redemption" or "—Redemption—Special Optional Redemption," as applicable.

We will deliver all securities, cash and any other property owing upon conversion no later than the third business day following the Change of Control Conversion Date. Notwithstanding the foregoing, the persons entitled to receive any shares of our Class A common stock or other securities delivered on conversion will be deemed to have become the holders of record thereof as of the Change of Control Conversion Date.

In connection with the exercise of any Change of Control Conversion Right, we will comply with all applicable federal and state securities laws and stock exchange rules in connection with any conversion of shares of the Series C Preferred Stock into shares of our Class A common stock or other property. Notwithstanding any other provision of the Series C Preferred Stock, no holder of Series C Preferred Stock will be entitled to convert such shares of the Series C Preferred Stock into shares of our Class A common stock to the extent that receipt of such shares of Class A common stock would cause such holder (or any other person) to violate any applicable restrictions on transfer and ownership of our stock contained in our articles of incorporation, unless we provide an exemption from this limitation to such holder. Please see the section entitled "—Restrictions on Transfer and Ownership" below.

The Change of Control conversion feature may make it more difficult for a third party to acquire us or discourage a party from acquiring us. If exercisable, the change of control conversion rights described in this

prospectus supplement may not adequately compensate you. These change of control conversion rights may also make it more difficult for a party to acquire us or discourage a party from acquiring us.”

Except as provided above in connection with a Change of Control, the Series C Preferred Stock is not convertible into or exchangeable for any other securities or property.

#### *Listing*

The Series C Preferred Stock is listed on the NYSE under the symbol “AI PrC”.

#### **Rights to Purchase Series A Junior Preferred Stock**

The articles of amendment designating our Series A junior preferred stock and the Rights Agreement are filed as exhibits to the Annual Report on Form 10-K of which this Exhibit 4.15 is a part and are incorporated herein by reference. The foregoing description of the Rights is qualified in its entirety by reference to the Rights Agreement.

On June 1, 2009, the Board of Directors the Company adopted a rights agreement and declared a dividend, payable to shareholders of record as of the close of business on June 5, 2009, of one preferred share purchase right (“Right”) for each outstanding share of the Company’s Class A common stock and Class B common stock, par value \$0.01 per share (“Class B common stock”), with such Rights originally to expire on June 4, 2019. The description and terms of the Rights are set forth in a Rights Agreement, dated June 5, 2009 (the “Original Rights Plan”), by and between the Company and American Stock Transfer & Trust Company, LLC, as Rights Agent. On April 9, 2018, Board of Directors approved and on April 13, 2018 the Company adopted a First Amendment to the Original Rights Plan (the Original Rights Plan as amended by the First Amendment, the “Rights Plan”). The First Amendment extends the expiration date of the Rights until June 4, 2022. The Company’s shareholders approved the First Amendment at its annual meeting of shareholders on June 14, 2018.

The Board of Directors adopted the Rights Plan in an effort to protect against a possible limitation on the Company’s ability to use its net operating loss carryforwards (“NOLs”), net capital loss carryforwards (“NCLs”) and built-in losses under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), which may be used to reduce potential future federal income tax obligations. The Company’s ability to use its NOLs, NCLs and built-in losses would be limited if there were an “ownership change” under Section 382 of the Code. An “ownership change” would occur if shareholders owning (or deemed under Section 382 to own) 5% or more of the Company’s stock increase their collective ownership of the aggregate amount of outstanding shares of the Company by more than 50 percentage points over a defined period of time. The Rights Plan was adopted to reduce the likelihood of an “ownership change” occurring as defined by Section 382.

The Rights Plan is intended to act as a deterrent to any person or group acquiring 4.9% or more of the Company’s outstanding Class A common stock (an “Acquiring Person”) without the approval of the Board of Directors. Shareholders who own 4.9% or more of the Company’s outstanding Class A common stock as of the close of business on June 5, 2009 will not trigger the Rights Plan so long as they do not (i) acquire any additional shares of Class A common stock or (ii) fall under 4.9% ownership of Class A common stock and then re-acquire additional shares so that they own 4.9% or more of the Class A common stock. The Rights Plan does not exempt any future acquisitions of Class A common stock by such persons. Any Rights held by an Acquiring Person are void and may not be exercised. No Person shall be an Acquiring Person unless the Board of Directors shall have affirmatively determined, in its sole and absolute discretion, within ten (10) business days (or such later time as the Board of Directors may determine) after such person has otherwise met the requirements of becoming an Acquiring Person, that such person shall be an Acquiring Person.

*The Rights.* The Board of Directors authorized the issuance of one Right per each outstanding share of the Company’s Class A common stock and Class B common stock payable to shareholders of record as of the close of business on June 5, 2009. Subject to the terms, provisions and conditions of the Rights Plan, if the Rights become exercisable, each Right would initially represent the right to purchase from the Company one ten-thousandth of a share of Series A Junior Preferred Stock for a purchase price of \$70.00, subject to adjustment in accordance with the terms of the Rights Plan (the “Purchase Price”). If issued, each fractional share of preferred stock would give the shareholder approximately the same dividend, voting and liquidation rights as does one share of the Company’s



Class A common stock. However, prior to exercise, a Right does not give its holder any rights as a shareholder of the Company, including, without limitation, any dividend, voting or liquidation rights.

*Exercisability.* The Rights will generally not be exercisable until the earlier of (i) 10 business days after a public announcement by the Company that a person or group has become an Acquiring Person and (ii) 10 business days after the commencement of a tender or exchange offer by a person or group for 4.9% or more of the Class A common stock.

The date that the Rights may first become exercisable is referred to as the “Distribution Date.” Any transfer of shares of Class A common stock and/or Class B common stock prior to the Distribution Date will constitute a transfer of the associated Rights. After the Distribution Date, the Rights may be transferred other than in connection with the transfer of the underlying shares of Class A common stock or Class B common stock.

After the Distribution Date and following a determination by the Board of Directors that a person is an Acquiring Person, each holder of a Right, other than Rights beneficially owned by the Acquiring Person (which will thereupon become void), will thereafter have the right to receive upon exercise of a Right and payment of the Purchase Price, that number of shares of Class A common stock or Class B common stock, as the case may be, having a market value of two times the Purchase Price.

*Exchange.* After the Distribution Date and following a determination by the Board of Directors that a person is an Acquiring Person, the Board of Directors may exchange the Rights (other than Rights owned by such person or group which will have become void), in whole or in part, at an exchange ratio of one share of Class A common stock or Class B common stock, as the case may be, or a fractional share of Series A Preferred Stock (or of a share of a similar class or series of the Company’s preferred stock having similar Rights, preferences and privileges) of equivalent value, per Right (subject to adjustment).

*Expiration.* The Rights and the Rights Plan will expire on the earliest of (i) June 4, 2022, (ii) the time at which the Rights are redeemed pursuant to the Rights Plan, (iii) the time at which the Rights are exchanged pursuant to the Rights Plan, (iv) the repeal of Sections 382 and 383 of the Code or any successor statute if the Board of Directors determines that the Rights Plan is no longer necessary for the preservation of the applicable tax benefits, (v) the beginning of a taxable year of the Company to which the Board of Directors determines that no applicable tax benefits may be carried forward and (vi) the close of business on June 4, 2019 if approval of the First Amendment by the Company’s shareholders has not been obtained.

*Redemption.* At any time prior to the time an Acquiring Person becomes such, the Board of Directors may redeem the Rights in whole, but not in part, at a price of \$0.01 per Right (the “Redemption Price”). The redemption of the Rights may be made effective at such time, on such basis and with such conditions as the Board of Directors in its sole discretion may establish. Immediately upon any redemption of the Rights, the right to exercise the Rights will terminate and the only right of the holders of Rights will be to receive the Redemption Price.

*Anti-Dilution Provisions.* The Board of Directors may adjust the Purchase Price of the preferred shares, the number of preferred shares issuable and the number of outstanding Rights to prevent dilution that may occur as a result of certain events, including among others, a stock dividend, a forward or reverse stock split or a reclassification of the preferred shares or Class A common stock or Class B common stock. No adjustments to the Purchase Price of less than 1% will be made.

*Anti-Takeover Effects.* While this was not the intent of the Board of Directors when adopting the Rights Plan, the Rights will have certain anti-takeover effects. The Rights will cause substantial dilution to any person or group that attempts to acquire the Company without the approval of the Board of Directors. As a result, the overall effect of the Rights may be to render more difficult or discourage any attempt to acquire the Company even if such acquisition may be favorable to the interests of the Company’s shareholders. Because the Board of Directors can redeem the Rights, the Rights should not interfere with a merger or other business combination approved by the Board of Directors.

*Amendments.* Before the Distribution Date, the Board of Directors may amend or supplement the Rights Plan without the consent of the holders of the Rights. After the Distribution Date, the Board of Directors may amend or

supplement the Rights Plan only to cure an ambiguity, to alter time period provisions, to correct inconsistent provisions, or to make any additional changes to the Rights Plan, but only to the extent that those changes do not impair or adversely affect, in any material respect, any Rights holder and do not result in the Rights again becoming redeemable, and no such amendment may cause the Rights again to become redeemable or cause this Rights Plan again to become amendable other than in accordance with the applicable timing of the Rights Plan.

### **Description of Notes**

The following descriptions of the 6.625% Notes and the 6.75% Notes are a summary and do not purport to be complete. They are subject to and qualified in their entirety by reference to the indenture, dated as of May 1, 2013, between the Company and Wells Fargo Bank, National Association, as trustee, as supplemented and modified by the first supplemental indenture, dated as of May 1, 2013, under which the 6.625% Notes were issued, and the second supplemental indenture dated as of March 18, 2015, between the Company, Wells Fargo Bank, National Association, and The Bank of New York Mellon, under which the 6.75% Notes were issued.

#### **6.625% Senior Notes due 2023**

##### *General*

References to the Trustee in this section refer to Wells Fargo Bank, National Association.

We have issued \$25.0 million in principal amount of the 6.625% Notes. The 6.625% Notes will mature on May 1, 2023. The principal payable at maturity will be 100.0% of the aggregate principal amount. The interest rate of the 6.625% Notes is 6.625% per year and will be paid every February 1, May 1, August 1 and November 1 of each year, commencing on August 1, 2013, and the regular record dates for interest payments will be the 15th calendar day before each interest payment date. The interest periods will be the periods from and including an interest payment date to, but excluding, the next interest payment date or the stated maturity date, as the case may be.

The 6.625% Notes were issued in denominations of \$25 and integral multiples of \$25 in excess thereof. The 6.625% Notes will not be subject to any sinking fund and holders of the 6.625% Notes will not have the option to have the 6.625% Notes repaid prior to the stated maturity date.

##### *Optional Redemption*

The 6.625% Notes may be redeemed in whole or in part at any time or from time to time at our option on or after May 1, 2016 upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price equal to 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to the date fixed for redemption.

You may be prevented from exchanging or transferring the 6.625% Notes when they are subject to redemption. In case any 6.625% Notes are to be redeemed in part only, the redemption notice will provide that, upon surrender of such 6.625% Note, you will receive, without a charge, a new 6.625% Note or 6.625% Notes of authorized denominations representing the principal amount of your remaining unredeemed 6.625% Notes. Any exercise of our option to redeem the 6.625% Notes will be done in compliance with the indenture.

If we redeem only some of the 6.625% Notes, the Trustee will determine the method for selection of the particular 6.625% Notes to be redeemed in accordance with the indenture and in accordance with the rules of any national securities exchange or quotation system on which the 6.625% Notes are listed. Unless we default in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on the 6.625% Notes called for redemption.

## *Events of Default*

You will have rights if an Event of Default occurs with respect to the 6.625% Notes and the Event of Default is not cured, as described later in this subsection.

The term “Event of Default” with respect to the 6.625% Notes means any of the following:

- We do not pay the principal of any 6.625% Note on its due date.
- We do not pay interest on any 6.625% Note when due, and such default is not cured within 30 days.
- We remain in breach of any other covenant with respect to the 6.625% Notes for 60 days after we receive a written notice of default stating we are in breach. The notice must be sent by either the Trustee or holders of at least 25% of the principal amount of the 6.625% Notes.
- Certain events involving our bankruptcy, insolvency or reorganization.

An Event of Default for a particular series of debt securities does not necessarily constitute an Event of Default for any other series of debt securities issued under the same or any other indenture. The Trustee may withhold notice to the holders of the 6.625% Notes of any default, except in the payment of principal, premium or interest, if it considers the withholding of notice to be in the best interests of the holders.

### *Remedies if an Event of Default Occurs*

If an Event of Default has occurred and has not been cured, the Trustee or the holders of at least 25% in principal amount of the 6.625% Notes may declare the entire principal amount of all the 6.625% Notes to be due and immediately payable. In the case of an Event of Default involving our bankruptcy, insolvency or reorganization with respect to us, the principal of, and accrued and unpaid interest on, all notes will automatically become immediately due and payable. This is called a declaration of acceleration of maturity. In certain circumstances, a declaration of acceleration of maturity may be canceled by the holders of a majority in principal amount of the 6.625% Notes.

The Trustee is not required to take any action under the indenture at the request of any holders unless the holders offer the Trustee protection satisfactory to it from expenses and liability (called an “indemnity”). If indemnity satisfactory to the Trustee is provided, the holders of a majority in principal amount of the 6.625% Notes may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the Trustee. The Trustee may refuse to follow those directions in certain circumstances. No delay or omission in exercising any right or remedy will be treated as a waiver of that right, remedy or any Event of Default.

Before you are allowed to bypass the Trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the 6.625% Notes, the following must occur:

- You must give the Trustee written notice that an Event of Default has occurred with respect to the 6.625% Notes and remains uncured.
- The holders of at least 25% in principal amount of all the 6.625% Notes must make a written request that the Trustee take action because of the default and must offer indemnity to the Trustee against the cost and other liabilities of taking that action.
- The Trustee must not have taken action for 60 days after receipt of the above notice and offer of indemnity.
- The holders of a majority in principal amount of the 6.625% Notes must not have given the Trustee a direction inconsistent with the above notice during that 60 day period.

However, you are entitled at any time to bring a lawsuit for the payment of money due on your notes on or after the due date of that payment.

Holders of a majority in principal amount of the 6.625% Notes may waive any past defaults other than a default:

- in the payment of principal, any premium or interest; or
- in respect of any provision of the 6.625% Notes or the indenture that cannot be modified or amended without the consent of each holder of the 6.625% Notes.

**Holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the Trustee and how to declare or cancel an acceleration of maturity.**

Each year, we will furnish to the Trustee a written statement of certain of our officers certifying that to their knowledge we are in compliance with the indenture and the 6.625% Notes, or else specifying any default.

#### *Merger or Consolidation*

Under the terms of the indenture, we are generally permitted to consolidate or merge with another entity. We are also permitted to sell all or substantially all of our assets to another entity. However, we may not take any of these actions unless all the following conditions are met:

- Where we merge out of existence or sell our assets, the resulting entity must agree to be legally responsible for our obligations under the 6.625% Notes and the indenture.
- The merger or sale of assets must not cause a default on the 6.625% Notes and we must not already be in default (unless the merger or sale would cure the default). For purposes of this no-default test, a default would include an Event of Default that has occurred and has not been cured, as described under “Events of Default” above. A default for this purpose would also include any event that would be an Event of Default if the requirements for giving us notice of default or our default having to exist for a specified period of time were disregarded.
- We must deliver certain certificates and documents to the Trustee.

#### *Modification or Waiver*

There are three types of changes we can make to the indenture and the 6.625% Notes issued thereunder.

##### *Changes Requiring Your Approval*

First, there are changes that we cannot make to the 6.625% Notes without approval from each affected holder. The following is a list of those types of changes:

- change the stated maturity of the principal of or interest on the 6.625% Notes;
- reduce any amounts due on the 6.625% Notes;
- reduce the amount of principal payable upon acceleration of the maturity of a security following a default;
- change the place or currency of payment on the 6.625% Notes or the redemption provisions applicable to the 6.625% Notes;

- impair your right to institute suit for the enforcement of any payment of principal of or interest on the 6.625% Notes;
- reduce the percentage of holders of 6.625% Notes whose consent is needed to modify or amend the indenture or the 6.625% Notes;
- reduce the percentage of holders of 6.625% Notes whose consent is needed to waive compliance with certain provisions of the indenture or the 6.625% Notes or to waive certain defaults; and
- modify any other material aspect of the provisions of the indenture or the 6.625% Notes dealing with supplemental indentures, modification and waiver of past defaults, changes to the quorum or voting requirements or the waiver of certain covenants.

*Changes Not Requiring Approval*

The second type of change does not require any vote by the holders of the 6.625% Notes. This type is limited to clarifications and certain other changes that would not adversely affect holders of the 6.625% Notes in any material respect.

*Changes Requiring Majority Approval*

Any other change to the indenture and the 6.625% Notes would require the following approval:

- If the change affects only the 6.625% Notes, it must be approved by the holders of a majority in principal amount of the 6.625% Notes (including any additional 6.625% Notes).
- If the change affects more than one series of debt securities issued under the same indenture, it must be approved by the holders of a majority in principal amount of all of the series affected by the change, with all affected series voting together as one class for this purpose.

The holders of a majority in principal amount of a series of debt securities issued under the indenture may waive our compliance with some of our covenants applicable to that series. However, we cannot obtain a waiver of a payment default or of any of the matters covered by the bullet points included above under “—Changes Requiring Your Approval”.

*Further Details Concerning Voting*

When taking a vote, we will use the principal amount that would be due and payable on the voting date if the maturity of the 6.625% Notes were accelerated to that date because of a default, to decide how much principal to attribute to the 6.625% Notes.

The 6.625% Notes will not be considered outstanding, and therefore not eligible to vote, if we have deposited or set aside in trust money for their payment or redemption. The 6.625% Notes will also not be eligible to vote if they have been fully defeased as described later under “Defeasance—Full Defeasance”.

We will generally be entitled to set any day as a record date for the purpose of determining the holders of the 6.625% Notes that are entitled to vote or take other action under the indenture. If we set a record date for a vote or other action to be taken by holders of the 6.625% Notes, that vote or action may be taken only by persons who are holders of the 6.625% Notes on the record date and must be taken within eleven months following the record date.

**Holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the indenture or the 6.625% Notes or request a waiver.**

The following provisions will be applicable to the 6.625% Notes.

Covenant Defeasance

Under applicable law, we can make the deposit described below and be released from some of the restrictive covenants and Events of Default in the indenture under which the 6.625% Notes were issued. This is called “covenant defeasance.” In that event, you would lose the protection of those restrictive covenants and Events of Default but would gain the protection of having money and government securities set aside in trust to repay your 6.625% Notes. In order to achieve covenant defeasance, the following conditions must be satisfied:

- Since the 6.625% Notes are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of the 6.625% Notes a combination of money and U.S. government or U.S. government agency notes or bonds that in the opinion of a nationally recognized firm of independent public accountants will generate enough cash to make interest, principal and any other payments on the 6.625% Notes on their due dates.
- We must deliver to the Trustee a legal opinion of our counsel confirming that, under current U.S. federal income tax law, we may make the above deposit without causing you to be taxed on the 6.625% Notes any differently than if we did not make the deposit and just repaid the 6.625% Notes ourselves at maturity.
- Defeasance must not result in a breach or violation of, or result in a default under, the indenture or any of our other material agreements or instruments.
- No default or event of default, or event which with notice or lapse of time would become an event of default, with respect to the 6.625% Notes shall have occurred and be continuing and no defaults or events of default related to bankruptcy, insolvency or reorganization shall occur during the next 90 days.
- We must deliver to the Trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act and a legal opinion and officers’ certificate stating that all conditions precedent to covenant defeasance have been complied with.
- If the 6.625% Notes are to be redeemed before their maturity, notice of redemption must have been given.

If we accomplish covenant defeasance, you can still look to us for repayment of the 6.625% Notes if there were a shortfall in the trust deposit or the Trustee is prevented from making payment.

Full Defeasance

If there is a change in U.S. federal tax law, as described below, we can legally release ourselves from all payment and other obligations on the 6.625% Notes of a particular series (called “full defeasance”) if the following conditions are satisfied in order for you to be repaid:

- Since the 6.625% Notes are in U.S. dollars, we must deposit in trust for the benefit of all holders of the 6.625% Notes a combination of money and U.S. government or U.S. government agency notes or bonds that in the opinion of a nationally recognized firm of independent public accountants will generate enough cash to make interest, principal and any other payments on the 6.625% Notes on their various due dates.
- We must deliver to the Trustee a legal opinion confirming that there has been a change in current U.S. federal tax law or an Internal Revenue Service (“IRS”) ruling that allows us to make the above deposit

without causing you to be taxed on the 6.625% Notes any differently than if we did not make the deposit and just repaid the 6.625% Notes ourselves at maturity. Under current U.S. federal tax law, the deposit and our legal release from the 6.625% Notes would be treated as though we paid you your share of the cash and notes or bonds at the time the cash and notes or bonds were deposited in trust in exchange for the 6.625% Notes and you would recognize gain or loss on the 6.625% Notes at the time of the deposit.

- Defeasance must not result in a breach or violation of, or constitute a default under, the indenture or any of our other material agreements or instruments.
- No default or event of default, or event which with notice or lapse of time would become an event of default, with respect to the 6.625% Notes shall have occurred and be continuing and no defaults or events of default related to bankruptcy, insolvency or reorganization shall occur during the next 90 days.
- We must deliver to the Trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act and a legal opinion and officers' certificate stating that all conditions precedent to defeasance have been complied with.
- If the 6.625% Notes are to be redeemed before their maturity, notice of redemption must have been given.

If we ever did accomplish full defeasance, as described above, you would have to rely solely on the trust deposit for repayment of the 6.625% Notes. You could not look to us for repayment in the unlikely event of any shortfall. Conversely, the trust deposit would most likely be protected from claims of our lenders and other creditors if we ever became bankrupt or insolvent.

#### *Other Covenants*

In addition to any other covenants described in this prospectus supplement or the accompanying prospectus, we have also agreed that if, at any time, we are not subject to the reporting requirements of Sections 13 or 15(d) of the Exchange Act to file any periodic reports with the SEC, we agree to file with the SEC, to the extent permitted under the Exchange Act, the annual reports, quarterly reports and other documents which we would have been required to file with the SEC if we were so subject, on or before the filings dates which we would have been required file such documents if we were so subject.

#### *Resignation of Trustee*

The Trustee may resign or be removed with respect to the 6.625% Notes provided that a successor trustee is appointed to act with respect to the 6.625% Notes. In the event that two or more persons are acting as trustee with respect to different series of indenture securities under the indenture, each of the trustees will be a trustee of a trust separate and apart from the trust administered by any other trustee.

#### *Indenture Provisions—Subordination and Senior Indebtedness*

The 6.625% Notes will be our direct unsecured obligations and will rank:

- *pari passu* with our future senior unsecured indebtedness;
- senior to our existing long-term debentures and any of our future indebtedness that expressly provides it is subordinated to the 6.625% Notes; and
- effectively subordinated to all of our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness, including our borrowings under repurchase agreements; and

- structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries.

#### *Listing*

The 6.25% Notes are listed on the NYSE under the symbol “AIW”.

#### *Sinking Fund*

The 6.625% Notes are not entitled to any sinking fund payments.

#### **6.75% Senior Notes Due 2025**

The terms of the 6.75% Notes are substantially similar to the terms of the 6.625% Notes, other than as follows:

#### *General*

References to the Trustee in this section refer to The Bank of New York Mellon.

We have issued \$35.3 million in principal amount of the 6.75% Notes. The 6.75% Notes will mature on March 15, 2025. The principal payable at maturity will be 100.0% of the aggregate principal amount. The interest rate on the 6.75% Notes is 6.75% per year and will be paid every March 15, June 15, September 15 and December 15 of each year, commencing on June 15, 2015, and the regular record dates for interest payments will be the 15<sup>th</sup> calendar day (whether or not a business day) before each interest payment date. Interest periods will be the periods from and including an interest payment date to, but excluding, the next interest payment date or the stated maturity date, as the case may be.

#### *Optional Redemption*

The 6.75% Notes may be redeemed in whole or in part at any time or from time to time at our option on or after March 15, 2018 upon not less than 30 days nor more than 60 days written notice by mail (or, in case of 6.75% Notes represented by one or more global securities, transmitted in accordance with the depository’s procedures) prior to the date fixed for redemption thereof, at a redemption price equal to 100% of the outstanding principal amount of 6.75% Notes being redeemed plus accrued and unpaid interest to, but excluding, the date fixed for redemption.

If we redeem only some of the 6.75% Notes, the Trustee will determine the method for selection of the particular 6.75% Notes to be redeemed in accordance with the indenture; provided, that if the Notes are represented by one or more global securities, beneficial interests in the 6.75% Notes will be selected for redemption by the depository in accordance with its standard procedures therefor. Unless we default in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on the 6.75% Notes called for redemption.

#### *Ranking*

The 6.75% Notes will be our direct unsecured obligations and will:

- rank senior in right of payment to our existing subordinated unsecured long-term debentures and all of our other existing and future indebtedness that is expressly subordinated in right of payment to the 6.75% Notes;
- rank equal in right of payment with our 6.625% Notes and all of our other existing and future liabilities that are not expressly subordinated in right of payment to the 6.75% Notes;
- are effectively subordinated to all of our existing and future secured indebtedness (including all indebtedness under repurchase agreements), to the extent of the value of the assets securing such indebtedness; and



- structurally subordinated to all existing and future indebtedness (including trade payables) and preferred equity of our subsidiaries, financing vehicles or similar facilities. See “Risk Factors — Risks Related to this Offering — The 6.75% Notes will be unsecured and therefore will be effectively subordinated to any secured indebtedness that we currently have or that we may incur in the future, including all repurchase agreements.”

### *Listing*

The 6.75% Notes are listed on the NYSE under the symbol “AIC”.

### **Restrictions on Ownership and Transfer**

The following restrictions on ownership and transfer apply to our common stock and Series C Preferred stock.

In order for us to qualify as a REIT, our stock must be beneficially owned by 100 or more persons for at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year. Also, not more than 50% of the value of the outstanding shares of our stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain exempt entities) during the last half of a taxable year.

Our charter provides that, subject to certain exceptions, no stockholder or “group” (as defined in Section 13(d)(3) of the Exchange Act) may own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code, in excess of (i) 9.9% of the number of the outstanding shares of our common stock, (ii) 9.9% in number of the outstanding shares of any class or series of our preferred stock, and (iii) 9.9% of the aggregate value of the outstanding shares of our equity stock (or the Ownership Limit). Our board may waive the Ownership Limit if it is presented with evidence satisfactory to it that the waiver will not jeopardize our qualification as a REIT. As a condition to any such waiver, our board may require opinions of counsel satisfactory to it and must receive an undertaking from the applicant with respect to preserving our REIT qualification. The Ownership Limit will not apply if our board determines that it is no longer in our best interests to continue to qualify as a REIT.

If shares of common stock and/or preferred stock (i) in excess of the Ownership Limit, (ii) which would cause us to be beneficially owned by fewer than 100 persons, (iii) that cause us to become “closely held” under Section 856(h) of the Internal Revenue Code, (iv) that are a violation of the restriction relating to causing the Company to constructively own 10% or more of the ownership interests in a tenant of our real property or (v) that are a violation of the restriction relating to the Company’s stock being beneficially owned by a disqualified organization are issued or transferred to any person, the issuance or transfer shall be void as to the number of shares in violation of such restrictions and the intended transferee will acquire no rights to such shares of common stock and/or preferred stock. Shares issued or transferred that would cause any stockholder (or a Prohibited Owner) to own more than the Ownership Limit or cause us to become “closely held” under Section 856(h) of the Internal Revenue Code will automatically be transferred, without action by the Prohibited Owner, to a trust for the exclusive benefit of one or more charitable beneficiaries that we select, and the Prohibited Owner will not acquire any rights in the shares of excess stock. Such automatic transfer shall be deemed to be effective as of the close of business on the day prior to the date of the transfer causing a violation. The trustee of the trust shall be appointed by us and must be independent of us and the Prohibited Owner. The Prohibited Owner shall have no right to receive dividends or other distributions with respect to, or be entitled to vote, any shares of stock held in the trust. Any dividend or other distribution paid prior to the discovery by us that stock has been transferred to the trust must be paid by the recipient of the dividend or distribution to the trustee upon demand for the benefit of the charitable beneficiary, and any dividend or other distribution authorized but unpaid shall be paid when due to the trust. The trust shall have all dividend and voting rights with respect to the shares of stock held in the trust, which rights shall be exercised for the exclusive benefit of the charitable beneficiary. Any dividend or distribution so paid to the trust shall be held in trust for the charitable beneficiary.

Shares of our stock transferred to a trustee are deemed to be offered for sale to us, or our designee, at a price per share equal to the lesser of (i) the price per share in the transaction that resulted in such transfer to the trust or, if the prohibited owner did not give value for the shares in connection with the event causing the shares to be held in trust (e.g., in the case of a gift, devise or other such transaction), the market price at the time of such event, and (ii)

the market price on the date we or our designee accepts such offer. We have the right to accept such offer period of ninety days after the later of (i) the date of the event causing the shares to be held in trust that resulted in such shares if our stock transferred to the trust and (ii) the date we determine in good faith that a purported transfer of shares of our stock or other event or change of circumstances that would violate any of the restrictions described in this proposal or our charter occurred, if the trustee sells the shares of our stock held in the trust.

If we do not buy the shares, a trustee must, in an orderly fashion so as not to materially adversely affect the market price of the shares, sell the shares to a person or entity who could own the shares without violating the restrictions described in our charter. Upon such sale, the interest of the beneficiary in the shares sold will terminate, and the trustee of the trust will distribute the net proceeds of the sale to the prohibited owner and to the beneficiary of the trust as follows:

- The Prohibited Owner will receive the lesser of (i) the price paid by the Prohibited Owner for the shares or, if the prohibited owner did not give value for the shares in connection with the event causing the shares to be held in charitable trust (e.g., in the case of a gift, devise or other such transaction), the market price of the shares on the day of the event causing the shares to be held in the trust, and (ii) the sales proceeds received by the trustee for the shares; and
- Any net sales proceeds and any dividends or other distributions (whether ordinary or extraordinary) in excess of the amount payable to the Prohibited Owner, less the costs, expenses and compensation of the charitable trustee and us, shall be promptly distributed to the beneficiary.

A trustee may reduce the amount that is payable to the Prohibited Owner by the amount of any dividends or other distributions (whether ordinary or extraordinary) that we paid to the prohibited owner before the discovery by us that the shares had been transferred to the trust and that is owed by the prohibited owner to the trustee.

The Ownership Limit provision will not be automatically removed even if the REIT provisions of the Internal Revenue Code are changed so as to no longer contain any ownership concentration limitation or if the ownership concentration is increased. Any change in the Ownership Limit would require an amendment to our charter. Such an amendment will require the affirmative vote of the holders of a majority of the outstanding shares of common stock and any other class of capital stock with such voting rights. In addition to preserving our qualification as a REIT, the Ownership Limit may have the effect of precluding an acquisition of control of our company without the approval of our board.

To the extent our shares of stock are certificated, all certificates representing shares of our common stock or preferred stock will refer to the restrictions described above.

Any person who acquires or attempts or intends to acquire shares of our stock in violation of any of the foregoing restrictions on transferability and ownership will be required to give written notice immediately to us and provide us with such other information as we may request in order to determine the effect of such transfer on our qualification as a REIT.

All persons who own, directly or by virtue of the attribution provisions of the Internal Revenue Code, 5% or more of our outstanding shares of stock (or such other percentage at the time prescribed by the Internal Revenue Code or the regulations promulgated thereunder) must file a written statement with us containing the information specified in our charter within 30 days after January 1 of each year. In addition, each stockholder must upon demand disclose to us such information as we deem necessary in order to determine our qualification as a REIT and to ensure compliance with the Ownership Limit.

#### **Number of Directors; Removal; Filling Vacancies**

Our articles of incorporation and bylaws provide that there shall be six directors. By amendment of our bylaws, the Board of Directors or the shareholders may increase or decrease the number of Directors in accordance with applicable law. A decrease in the number of Directors shall not shorten the term of any incumbent director. Directors hold office until their death, resignation or removal or until their successor is elected.

Our bylaws provide that vacancies on the Board of Directors, including a vacancy resulting from death, resignation, disqualification or removal or an increase in the number of directors, shall be filled by the Board of Directors, the shareholders or the affirmative vote of a majority of the remaining Directors where less than a quorum of the Board of Directors remains. Where a resignation will become effective at a specified later date, it may be filled before the vacancy occurs, but the new Director may not take office until the vacancy occurs. A director elected by the Board of Directors to fill a vacancy shall be elected to hold office until the next annual meeting of shareholders or until his or her successor is elected.

### **Shareholder Action**

Our articles of incorporation and bylaws provide that special meetings of the shareholders may only be called by the Board of Directors or by the Chairman, Chief Executive Officer, or President pursuant to a notice of meeting stating the purpose or purposes thereof approved by a majority of the Directors, the chairman, vice-chairman, chief executive officer or the president of the company. Only the business falling within the purpose or purposes described in the notice shall be conducted at a special meeting.

### **Advance Notice for Shareholder Proposals or Nominations at Meetings**

Our bylaws establish advance notice procedures for shareholder proposals regarding business or nominations to be brought before any annual or special meeting of shareholders. Except for the election of directors by the unanimous written consent of shareholders or the filling of vacancies on the Board of Directors by the Board of Directors, only persons nominated in accordance with the notice procedures set forth in our bylaws shall be eligible to serve as a director. Similarly, other business shall not be conducted at a meeting of shareholders unless it is brought before the meeting in accordance with the procedures set forth in our bylaws. Except as otherwise dictated by law, the chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was properly made or proposed, as the case may be. If any nomination or business is defectively made or proposed, it shall be disregarded.

### **Annual Meetings**

Nominations of persons for election to the Board of Directors and the proposal of business to be considered by the shareholders may be made at the annual meeting of shareholders in the following ways. Such nominations or proposals may be made pursuant to a notice of the meeting, by or at the direction of the Board of Directors or by a shareholder of our company who is a shareholder of record of a class of shares entitled to vote on the business such shareholder is proposing, both on the record date for the annual meeting and at the giving of the shareholder's notice, and who complies with the notice procedures provided for in our bylaws.

To properly bring nominations or other business before an annual meeting of the shareholders, a shareholder must give timely, written notice thereof in proper form and timely updates and supplements thereof as of the record date for the shareholder meeting and as of the date that is ten business days prior to the meeting, and the proposed business must be proper for shareholder consideration. To be timely, the notice must be delivered to the secretary of our company at our company's principal executive officers not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the preceding year's annual meeting. However, if the annual meeting is more than 30 days before or more than 60 days after such anniversary, the shareholder's notice must be delivered to the secretary of our company at our company's principal executive offices not earlier than the close of business on the 120th day prior to the annual meeting and not later than the close of business on the later of the 90th day prior to the annual meeting or the tenth day following the date on which we first make public announcement of the date of our annual meeting.

The shareholder's notice must contain certain information. As to each person the shareholder proposes to nominate for election or re-election to the Board of Directors, the notice must contain all information relating to such person that is required to be disclosed in solicitations of proxies for election of Directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act and Rule 14a-8 thereunder and a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between or among such shareholder and beneficial owner, if any, and their respective affiliates and associates, or others acting in concert therewith, on the

one hand, and each proposed nominee, and his or her respective affiliates and associates, or others acting in concert therewith, on the other hand, including, without limitation all information that would be required to be disclosed pursuant to Rule 404 promulgated under Regulation S-K if the shareholder making the nomination and any beneficial owner on whose behalf the nomination is made, if any, or any affiliate or associate thereof or person acting in concert therewith, were the “registrant” for purposes of such rule and the nominee were a director or executive officer of such registrant. With respect to each person whom the shareholder proposes to nominate for election or reelection to the Board of Directors, a shareholder’s notice must also include a completed and signed questionnaire, representation and agreement required by the bylaws. In addition to the information explicitly required in the bylaws, a shareholder proposing a director nominee may be required to furnish other information as we may reasonably require to determine the eligibility of the proposed nominee to serve as director.

As to any other business that the shareholder proposes to bring before the meeting, the notice must contain a brief description of the proposed business and any material interest in such business of the shareholder and the beneficial owner, if any, on whose behalf the proposal is made. The shareholder notice must also provide the name and address of the shareholder and the beneficial owner, if any, on whose behalf the proposal is made as they appear on the books of the corporation as well as the class and number of shares that are owned beneficially and of record by such shareholder and such beneficial owner, as the case may be any information concerning derivative ownership and hedging transactions, and any affiliates, associates or others acting in concert with such shareholder.

If the number of Directors to be elected to the Board of Directors is increased and there is no public announcement by us naming all of the nominees for Director or specifying the size of the increased Board of Directors at least 100 days prior to the first anniversary of the preceding year’s annual meeting, a shareholder’s notice will be considered timely, but only with respect to nominees for any new positions created by the increase, if it is delivered to the secretary of the company at our principal executive offices not later than the close of business on the tenth day following the date on which we first make such public announcement.

### **Special Meetings**

Nominations of persons for election to the Board of Directors may be made at a special meeting of shareholders at which Directors are to be elected pursuant to the notice of meeting in two ways. Such nominations may be made by or at the direction of the Board of Directors. Additionally, a nomination may be made by any shareholder who was a shareholder of record at the time notice of the meeting was given, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in our bylaws. Any shareholder so qualified may nominate a person or persons for election to the position or positions specified in the notice of meeting if the shareholder provides timely, written notice thereof to the secretary of the company at our principal executive offices. To be timely, such notice must be provided not earlier than the close of business on the 120th day prior to the special meeting and not later than the close of business on the later of the 90th day prior to the special meeting or the tenth day following the day on which public announcement of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting is first made.

### **Amendment of the Bylaws**

Our bylaws may be amended or repealed, and new bylaws may be made, at any regular or special meeting of the Board of Directors or the shareholders. Bylaws made by the Board of Directors may be repealed or changed and new bylaws may be made by the shareholders, and the shareholders may prescribe that any bylaw made by them shall not be altered, amended, repealed or reinstated by the Board of Directors. The affirmative vote of at least 80% of the voting power of the outstanding shares of our capital stock entitled to vote is required for the shareholders to adopt, alter or repeal any bylaw that requires or would require the company to hold, or sets forth procedures for the holding of, a special meeting of shareholders or that governs or would govern the nomination of persons for election to the Board of Directors or the proposal of business to be considered at an annual or special meeting of shareholders.

### **Amendment of the Articles of Incorporation**

For every voting group entitled to vote on a proposed amendment to our articles of incorporation, the vote required for approval shall be either the vote specifically required by our articles of incorporation or, if no voting requirement is specified, a majority of the votes entitled to be cast.

Except for amendments to our articles of incorporation adopted by the Board of Directors that establish any series of preferred stock, the affirmative vote of at least 80% of the voting power of the outstanding shares of the company is required to amend our articles of incorporation to include two types of provisions. The provisions that require such a vote are those that would require the company to hold, or set forth procedures for the holding of, a special meeting of shareholders or that would govern the nomination of persons for election to the Board of Directors of the proposal of business to be considered at an annual or special meeting of shareholders. The affirmative vote of at least 80% of the voting power of the outstanding shares of the company is also required to alter, amend or adopt any provision inconsistent with or repealing the Article VIII of our articles of incorporation, which addresses certain voting matters, including the amendment of our bylaws and articles of incorporation.

### **Virginia Law**

The Virginia Stock Corporation Act contains provisions that may have the effect of impeding the acquisition of control of a Virginia corporation by means of a tender offer, proxy contest, open market purchases or otherwise in a transaction not approved by the corporation's Board of Directors. These provisions are designed to reduce the corporation's vulnerability to coercive takeover practices and inadequate takeover bids.

#### *Affiliated Transactions Statute*

Pursuant to a provision in our articles of incorporation, we have opted out of the affiliated transactions provisions contained in the VSCA. In general, these provisions prohibit a Virginia corporation from engaging in affiliated transactions with the beneficial owner of more than 10% of any class of its outstanding voting shares (an "interested shareholder") for a period of three years following the date that such person became an interested shareholder unless:

- a majority (but not less than two) of the disinterested directors of the corporation and the holders of two-thirds of the voting shares, other than the shares beneficially owned by the interested shareholder, approve the affiliated transaction; or
- Before or contemporaneously with the date the person became an interested shareholder, a majority of disinterested directors approved the transaction that resulted in the shareholder becoming an interested shareholder.

Affiliated transactions subject to this approval requirement include mergers, share exchanges, certain dispositions of corporate assets not in the ordinary course of business, any dissolution of the corporation proposed by or on behalf of an interested shareholder or any reclassification, including reverse stock splits, recapitalizations or mergers of the corporation with its subsidiaries, which increases the percentage of voting shares owned beneficially by an interested shareholder by more than 5%.

#### *Control Share Acquisitions Statute*

Pursuant to our bylaws, the provisions of Article 14.1 of the Virginia Stock Corporation Act relating to "control share acquisitions" shall not apply to the company.

### **Shareholder Rights Agreement**

See "Rights to Purchase Series A Junior Preferred Stock" above.

**List of Significant Subsidiaries of the Registrant**

<u>Name</u>	<u>State of Incorporation</u>
Arlington Asset TRS Holdings, LLC	Delaware
Key Bridge Insurance, LLC	Tennessee
McLean Mortgage Investment, LLC	Delaware
Rock Creek Investment Advisors, LLC	Delaware
Rosslyn REIT Trust	Maryland

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-104475, 333-174669 and 333-197442) and Form S-3 (No. 333-235885) of Arlington Asset Investment Corp. of our report dated February 24, 2020 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Annual Report on Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

McLean, Virginia

February 24, 2020

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## CERTIFICATION

I, J. Rock Tonkel, Jr., certify that:

1. I have reviewed this Annual Report on Form 10-K of Arlington Asset Investment Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 24, 2020

/s/ J. ROCK TONKEL, JR.

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**J. Rock Tonkel, Jr.**  
**President and Chief Executive Officer**  
**(Principal Executive Officer)**



## CERTIFICATION

I, Richard E. Konzmann, certify that:

1. I have reviewed this Annual Report on Form 10-K of Arlington Asset Investment Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 24, 2020

/s/ RICHARD E. KONZMANN

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**Richard E. Konzmann**  
**Executive Vice President,**  
**Chief Financial Officer, and Treasurer**  
**(Principal Financial Officer)**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Arlington Asset Investment Corp. (the Company) for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, J. Rock Tonkel, Jr., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 24, 2020

/s/ J. ROCK TONKEL, JR.

**J. Rock Tonkel, Jr.**  
**President and Chief Executive Officer**  
**(Principal Executive Officer)**

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Arlington Asset Investment Corp. (the Company) for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Richard E. Konzmann, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 24, 2020

/s/ RICHARD E. KONZMANN

**Richard E. Konzmann**  
**Executive Vice President,**  
**Chief Financial Officer and Treasurer**  
**(Principal Financial Officer)**

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