**UNITED STATES**



**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

* **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2019**

**OR**

* **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 Commission file number 001-34057**



**AGNC INVESTMENT CORP.**

**(Exact name of registrant as specified in its charter)**

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Delaware**

**26-1701984**

**(State or Other Jurisdiction of**

**Incorporation or Organization)**

**(I.R.S. Employer**

**Identification No.)**

**2 Bethesda Metro Center, 12th Floor**

**Bethesda, Maryland 20814**

**(Address of principal executive offices)**

**(301) 968-9315**

**(Registrant’s telephone number, including area code)**

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Indicate by check mark whether the registrant (1) has filed all reports 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 x No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ☐

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Large accelerated filer | ☒ | Accelerated filer | ☐ |  |
|  |  |
| Non-accelerated filer | ☐ (Do not check if a smaller reporting company) | Smaller Reporting Company | ☐ |  |
| Emerging growth company | ☐ |  |  |  |

If an emerging growth company, indicate by check mark if 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 x

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Title of Each Class** |  | **Trading Symbol(s)** |  | **Name of Exchange on Which Registered** |  |
| Common Stock, par value $0.01 per share | | AGNC | | The Nasdaq Global Select Market |  |
| Depositary shares of 7.750% Series B Cumulative Redeemable Preferred Stock | | AGNCB | | The Nasdaq Global Select Market |  |
| Depositary shares of 7.000% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred | | AGNCN | | The Nasdaq Global Select Market |  |
| Stock | |  |
|  |  |  |  |
| Depositary shares of 6.875% Series D Fixed-to-Floating Rate Cumulative Redeemable Preferred | | AGNCM | | The Nasdaq Global Select Market |  |
| Stock | |  |
|  |  |  |  |

The number of shares of the issuer's common stock, $0.01 par value, outstanding as of July 31, 2019 was 547,817,953.



**AGNC INVESTMENT CORP.**

**TABLE OF CONTENTS**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| [**PART I.**](#page3) | | | | | [**FINANCIAL INFORMATION**](#page3) | | | | | | | | | | | |  |  |  |
| [Item 1.](#page3) |  |  | | | [Financial Statements](#page3) | | | | | | | | |  | | | [2](#page3) | |  |
|  |  | |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |
| [Item 2.](#page26) |  | | | | [Management's Discussion and Analysis of Financial Condition and Results of Operations](#page26) | | | | | | | | | | |  | [25](#page26) | | |
|  |  | |  |  |  |  |  |  |  | |  |  |  | |  |  |  |  |  |
| [Item 3.](#page44) |  | | | | [Quantitative and Qualitative Disclosures About Market Risk](#page44) | | | | | | | | | | |  | [43](#page44) | | |
|  |  | |  |  |  |  |  |  |  | |  |  |  | |  | |  |  |  |
| [Item 4.](#page48) |  | | | | [Controls and Procedures](#page48) | | | | | | | | | |  | | [47](#page48) | | |
|  |  | |  |  |  |  |  |  |  | |  |  |  | | | |  |  |  |
| [**PART II.**](#page48) | | | | | [**OTHER INFORMATION**](#page48) | | | | | | | | | | | |  |  |  |
| [Item 1.](#page48) |  | | |  | [Legal Proceedings](#page48) | | | |  | | |  | | | | | [47](#page48) | | |
|  |  | |  |  |  |  |  |  |  | | | |  | | | |  |  |  |
| [Item 1A.](#page48) | | |  | | [Risk Factors](#page48) | | | | | | | | | | | | [47](#page48) | | |
| [Item 2.](#page48) |  | |  | | [Properties](#page48) | |  |  | | | | | | | | |  | [47](#page48) | |
|  |  | | |  |  |  |  | |  | | | |  | | | |  |  |  |
| [Item 3.](#page48) |  | | | | [Defaults upon Senior Securities](#page48) | | | | | | | |  | | | | [47](#page48) | | |
|  |  | | |  |  |  | | |  | | | |  | | | |  |  |  |
| [Item 4.](#page48) |  | | | | [Mine Safety Disclosures](#page48) | | | | | | | |  | | | | [47](#page48) | | |
|  |  | | |  |  |  | | |  | |  | | | | | |  |  |  |
| [Item 5.](#page48) |  | | | | [Other Information](#page48) | | | |  | |  | | | | | | [47](#page48) | | |
|  |  | | |  |  |  | | |  | | | | | | | |  |  |  |
| [Item 6.](#page49) |  | | | | [Exhibits](#page49) |  | | |  | | | | | | | | [48](#page49) | | |
|  |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Signatures | | | |  |  |  |  |  |  |  |  |  |  |  |  |  | [50](#page51) | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1

**PART I. FINANCIAL INFORMATION**

**Item 1. *Financial Statements***

**AGNC INVESTMENT CORP.**

**CONSOLIDATED BALANCE SHEETS**

**(in millions, except per share data)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **June 30, 2019** |  |  | **December 31, 2018** |
|  |  | **(Unaudited)** | |  |  |
|  |  |  |  |  |  |
| **Assets:** |  |  |  |  |  |
| Agency securities, at fair value (including pledged securities of $87,582 and $78,619, respectively) | $ | 91,140 |  | $ | 82,291 |
|  |  |  |  |  |  |
| Agency securities transferred to consolidated variable interest entities, at fair value (pledged securities) |  | 411 |  |  | 436 |
| Credit risk transfer securities, at fair value (including pledged securities of $269 and $141, respectively) |  | 1,117 |  |  | 1,012 |
|  |  |  |  |  |  |
| Non-Agency securities, at fair value (including pledged securities of $0 and $45, respectively) |  | 603 |  |  | 548 |
| U.S. Treasury securities, at fair value (including pledged securities of $1,152 and $0, respectively) |  | 1,152 |  |  | 46 |
|  |  |  |  |  |  |
| Cash and cash equivalents |  | 870 |  |  | 921 |
| Restricted cash |  | 789 |  |  | 599 |
|  |  |  |  |  |  |
| Derivative assets, at fair value |  | 116 |  |  | 273 |
| Receivable for investment securities sold (including pledged securities of $673 and $489, respectively) |  | 679 |  |  | 489 |
|  |  |  |  |  |  |
| Receivable under reverse repurchase agreements |  | 8,848 |  |  | 21,813 |
| Goodwill |  | 526 |  |  | 526 |
|  |  |  |  |  |  |
| Other assets |  | 325 |  |  | 287 |
| Total assets | $ | 106,576 |  | $ | 109,241 |
| **Liabilities:** |  |  |  |  |  |
| Repurchase agreements | $ | 86,266 |  | $ | 75,717 |
|  |  |  |  |  |  |
| Debt of consolidated variable interest entities, at fair value |  | 251 |  |  | 275 |
| Payable for investment securities purchased |  | 878 |  |  | 1,204 |
|  |  |  |  |  |  |
| Derivative liabilities, at fair value |  | 63 |  |  | 84 |
| Dividends payable |  | 101 |  |  | 106 |
|  |  |  |  |  |  |
| Obligation to return securities borrowed under reverse repurchase agreements, at fair value |  | 7,754 |  |  | 21,431 |
| Accounts payable and other liabilities |  | 917 |  |  | 518 |
|  |  |  |  |  |  |
| Total liabilities |  | 96,230 |  |  | 99,335 |
| **Stockholders' equity:** |  |  |  |  |  |
|  |  |  |  |  |  |
| Preferred Stock - aggregate liquidation preference of $735 and $500, respectively |  | 711 |  |  | 484 |
| Common stock - $0.01 par value; 900 shares authorized; 547.8 and 536.3 shares issued and outstanding, respectively |  | 5 |  |  | 5 |
|  |  |  |  |  |  |
| Additional paid-in capital |  | 13,988 |  |  | 13,793 |
| Retained deficit |  | (4,194) |  |  | (3,433) |
|  |  |  |  |  |  |
| Accumulated other comprehensive loss |  | (164) |  |  | (943) |
| Total stockholders' equity |  | 10,346 |  |  | 9,906 |
|  |  |  |  |  |  |
| Total liabilities and stockholders' equity | $ | 106,576 |  | $ | 109,241 |
|  |  |  |  |  |  |

See accompanying notes to consolidated financial statements.

2

**AGNC INVESTMENT CORP.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(Unaudited)**

**(in millions, except per share data)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June** | | | | | | |  | **Six Months Ended June** | | | | |
|  |  |  | **30,** | | |  |  |  |  | **30,** | | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **2019** |  |  |  | **2018** |  |  | **2019** |  |  |  | **2018** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Interest income:** |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest income | $ | 693 | $ | | | 414 |  | $ | 1,398 | $ | | | 845 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest expense |  | 570 |  |  |  | 237 |  |  | 1,111 |  |  |  | 443 |
| Net interest income |  | 123 |  |  |  | 177 |  |  | 287 |  |  |  | 402 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Other gain (loss), net:** |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gain (loss) on sale of investment securities, net |  | 132 |  |  |  | (74) |  |  | 192 |  |  |  | (76) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Unrealized gain (loss) on investment securities measured at fair value through net income, net |  | 759 |  |  |  | (94) |  |  | 1,819 |  |  |  | (617) |
| Gain (loss) on derivative instruments and other securities, net |  | (1,438) |  |  |  | 298 |  |  | (2,438) |  |  |  | 1,036 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Management fee income |  | — |  |  |  | 4 |  |  | — |  |  |  | 8 |
| Total other gain (loss), net: |  | (547) |  |  |  | 134 |  |  | (427) |  |  |  | 351 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Expenses:** |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Compensation and benefits |  | 11 |  |  |  | 10 |  |  | 21 |  |  |  | 20 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Other operating expense |  | 9 |  |  |  | 8 |  |  | 18 |  |  |  | 16 |
| Total operating expense |  | 20 |  |  |  | 18 |  |  | 39 |  |  |  | 36 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Net income (loss)** |  | (444) |  |  |  | 293 |  |  | (179) |  |  |  | 717 |
| Dividend on preferred stock |  | 13 |  |  |  | 9 |  |  | 23 |  |  |  | 18 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Net income (loss) available (attributable) to common stockholders** | $ | (457) | $ | | | 284 |  | $ | (202) | $ | | | 699 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Net income (loss)** | $ | (444) | $ | | | 293 |  | $ | (179) | $ | | | 717 |
| Unrealized gain (loss) on investment securities measured at fair value through other |  |  |  |  |  |  |  |  |  |  |  |  |  |
| comprehensive income (loss), net |  | 379 |  |  |  | (145) |  |  | 779 |  |  |  | (766) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Comprehensive income (loss)** |  | (65) |  |  |  | 148 |  |  | 600 |  |  |  | (49) |
| Dividend on preferred stock |  | 13 |  |  |  | 9 |  |  | 23 |  |  |  | 18 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Comprehensive income (loss) available (attributable) to common stockholders** | $ | (78) | $ | | | 139 |  | $ | 577 | $ | | | (67) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Weighted average number of common shares outstanding - basic** |  | 537.8 |  |  |  | 404.9 |  |  | 537.2 |  |  |  | 398.2 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Weighted average number of common shares outstanding - diluted** |  | 537.8 |  |  |  | 405.2 |  |  | 537.2 |  |  |  | 398.4 |
| **Net income (loss) per common share - basic** | $ | (0.85) |  |  | $ | 0.70 |  | $ | (0.38) |  |  | $ | 1.76 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Net income (loss) per common share - diluted** | $ | (0.85) |  |  | $ | 0.70 |  | $ | (0.38) |  |  | $ | 1.75 |
| **Dividends declared per common share** | $ | 0.50 | $ | | | 0.54 |  | $ | 1.04 | $ | | | 1.08 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

See accompanying notes to consolidated financial statements.

3

**AGNC INVESTMENT CORP.**

**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

**(Unaudited)**

**(in millions)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Common Stock** | | | |  |  | **Additional** | |  |  |  |  | **Accumulated** | |  |  |  |
|  |  |  |  |  |  |  |  |  | **Other** | |  |  |  |
|  |  | **Preferred** | | **Shares** | |  | **Amount** | |  | **Paid-in** | |  | **Retained** | |  | **Comprehensive** | |  | **Total** |  |
|  |  | **Stock** | |  |  | **Capital** | |  | **Deficit** | |  | **Income (Loss)** | |  |  |
| **Balance, March 31, 2018** | $ | 484 |  | 391.3 |  | $ | 4 |  | $ | 11,174 |  | $ | (2,358) |  | $ | (966) |  | $ | 8,338 |  |
| Net income |  | — | | — | |  | — | |  | — | |  | 293 |  |  | — | |  | 293 |  |
| Other comprehensive loss: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Unrealized loss on available-for-sale securities, net |  | — | | — | |  | — | |  | — | |  | — | |  | (145) |  |  | (145) |  |
| Stock-based compensation |  | — | | — | |  | — | |  | 2 |  |  | — | |  | — | |  | 2 |  |
| Issuance of common stock, net of offering cost |  | — | | 42.8 |  |  | — | |  | 788 |  |  | — | |  | — | |  | 788 |  |
| Preferred dividends declared |  | — | | — | |  | — | |  | — | |  | (9) |  |  | — | |  | (9) |  |
| Common dividends declared |  | — | | — | |  | — | |  | — | |  | (225) |  |  | — | |  | (225) |  |
| **Balance, June 30, 2018** | $ | 484 |  | 434.1 |  | $ | 4 |  | $ | 11,964 |  | $ | (2,299) |  | $ | (1,111) |  | $ | 9,042 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Balance, March 31, 2019** | $ | 711 |  | 536.3 |  | $ | 5 |  | $ | 13,795 |  | $ | (3,467) |  | $ | (543) |  | $ | 10,501 |  |
| Net loss |  | — | | — | |  | — | |  | — | |  | (444) |  |  | — | |  | (444) |  |
| Other comprehensive income: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Unrealized gain on available-for-sale securities, net |  | — | | — | |  | — | |  | — | |  | — | |  | 379 |  |  | 379 |  |
| Stock-based compensation |  | — | | — | |  | — | |  | 3 |  |  | — | |  | — | |  | 3 |  |
| Issuance of common stock, net of offering cost |  | — | | 11.4 |  |  | — | |  | 190 |  |  | — | |  | — | |  | 190 |  |
| Issuance of preferred stock, net of offering cost |  | — | | — | |  | — | |  | — | |  | — | |  | — | |  | — |  |
| Preferred dividends declared |  | — | | — | |  | — | |  | — | |  | (13) |  |  | — | |  | (13) |  |
| Common dividends declared |  | — | | — | |  | — | |  | — | |  | (270) |  |  | — | |  | (270) |  |
| **Balance, June 30, 2019** | $ | 711 |  | 547.8 |  | $ | 5 |  | $ | 13,988 |  | $ | (4,194) |  | $ | (164) |  | $ | 10,346 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Balance, December 31, 2017** | $ | 484 |  | 391.3 |  | $ | 4 |  | $ | 11,173 |  | $ | (2,562) |  | $ | (345) |  | $ | 8,754 |  |
| Net income |  | — | | — | |  | — | |  | — | |  | 717 |  |  | — | |  | 717 |  |
| Other comprehensive loss: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Unrealized loss on available-for-sale securities, net |  | — | | — | |  | — | |  | — | |  | — | |  | (766) |  |  | (766) |  |
| Stock-based compensation |  | — | | — | |  | — | |  | 3 |  |  | — | |  | — | |  | 3 |  |
| Issuance of common stock, net of offering cost |  | — | | 42.8 |  |  | — | |  | 788 |  |  | — | |  | — | |  | 788 |  |
| Preferred dividends declared |  | — | | — | |  | — | |  | — | |  | (18) |  |  | — | |  | (18) |  |
| Common dividends declared |  | — | | — | |  | — | |  | — | |  | (436) |  |  | — | |  | (436) |  |
| **Balance, June 30, 2018** | $ | 484 |  | 434.1 |  | $ | 4 |  | $ | 11,964 |  | $ | (2,299) |  | $ | (1,111) |  | $ | 9,042 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Balance, December 31, 2018** | $ | 484 |  | 536.3 |  | $ | 5 |  | $ | 13,793 |  | $ | (3,433) |  | $ | (943) |  | $ | 9,906 |  |
| Net loss |  | — | | — | |  | — | |  | — | |  | (179) |  |  | — | |  | (179) |  |
| Other comprehensive income: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Unrealized gain on available-for-sale securities, net |  | — | | — | |  | — | |  | — | |  | — | |  | 779 |  |  | 779 |  |
| Stock-based compensation |  | — | | 0.1 |  |  | — | |  | 5 |  |  | — | |  | — | |  | 5 |  |
| Issuance of common stock, net of offering cost |  | — | | 11.4 |  |  | — | |  | 190 |  |  | — | |  | — | |  | 190 |  |
| Issuance of preferred stock, net of offering cost |  | 227 |  | — | |  | — | |  | — | |  | — | |  | — | |  | 227 |  |
| Preferred dividends declared |  | — | | — | |  | — | |  | — | |  | (23) |  |  | — | |  | (23) |  |
| Common dividends declared |  | — | | — | |  | — | |  | — | |  | (559) |  |  | — | |  | (559) |  |
| **Balance, June 30, 2019** | $ | 711 |  | 547.8 |  | $ | 5 |  | $ | 13,988 |  | $ | (4,194) |  | $ | (164) |  | $ | 10,346 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

Amounts may not total due to rounding.

See accompanying notes to consolidated financial statements.

4

**AGNC INVESTMENT CORP.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

**(in millions)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Six Months Ended June 30,** | | | |
|  |  | **2019** |  |  | **2018** |
| **Operating activities:** |  |  |  |  |  |
| Net income (loss) | $ | (179) |  | $ | 717 |
|  |  |  |  |  |  |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |  |  |  |  |
| Amortization of premiums and discounts on mortgage-backed securities, net |  | 325 |  |  | 143 |
|  |  |  |  |  |  |
| Amortization of intangible assets |  | — | |  | 1 |
| Stock-based compensation |  | 5 |  |  | 3 |
|  |  |  |  |  |  |
| (Gain) loss on sale of investment securities, net |  | (192) |  |  | 76 |
| Unrealized (gain) loss on investment securities measured at fair value through net income, net |  | (1,819) |  |  | 617 |
|  |  |  |  |  |  |
| (Gain) loss on derivative instruments and other securities, net |  | 2,438 |  |  | (1,036) |
| Increase in other assets |  | (36) |  |  | (139) |
|  |  |  |  |  |  |
| Increase in accounts payable and other accrued liabilities |  | 22 |  |  | 28 |
| Net cash provided by operating activities |  | 564 |  |  | 410 |
|  |  |  |  |  |  |
| **Investing activities:** |  |  |  |  |  |
| Purchases of Agency mortgage-backed securities |  | (23,963) |  |  | (7,946) |
|  |  |  |  |  |  |
| Purchases of credit risk transfer and non-Agency securities |  | (904) |  |  | (437) |
| Proceeds from sale of Agency mortgage-backed securities |  | 12,186 |  |  | 4,326 |
|  |  |  |  |  |  |
| Proceeds from sale of credit risk transfer and non-Agency securities |  | 852 |  |  | 380 |
| Principal collections on Agency mortgage-backed securities |  | 4,772 |  |  | 3,421 |
|  |  |  |  |  |  |
| Principal collections on credit risk transfer and non-Agency securities |  | 14 |  |  | 4 |
| Payments on U.S. Treasury securities |  | (22,535) |  |  | (4,734) |
|  |  |  |  |  |  |
| Proceeds from U.S. Treasury securities |  | 7,122 |  |  | 7,318 |
| Net proceeds from (payments on) reverse repurchase agreements |  | 13,219 |  |  | (2,251) |
|  |  |  |  |  |  |
| Net proceeds from (payments on) derivative instruments |  | (1,539) |  |  | 630 |
| Net payments on other investing activity |  | — | |  | (16) |
|  |  |  |  |  |  |
| Net cash (used in) provided by investing activities |  | (10,776) |  |  | 695 |
| **Financing activities:** |  |  |  |  |  |
|  |  |  |  |  |  |
| Proceeds from repurchase arrangements |  | 1,904,071 |  |  | 702,295 |
| Payments on repurchase agreements |  | (1,893,522) |  |  | (703,752) |
|  |  |  |  |  |  |
| Payments on debt of consolidated variable interest entities |  | (28) |  |  | (42) |
| Net proceeds from preferred stock issuance |  | 227 |  |  | — |
|  |  |  |  |  |  |
| Net proceeds from common stock issuance |  | 190 |  |  | 788 |
| Cash dividends paid |  | (587) |  |  | (447) |
|  |  |  |  |  |  |
| Net cash provided by (used in) financing activities |  | 10,351 |  |  | (1,158) |
| Net change in cash, cash equivalents and restricted cash |  | 139 |  |  | (53) |
|  |  |  |  |  |  |
| Cash, cash equivalents and restricted cash at beginning of period |  | 1,520 |  |  | 1,363 |
| Cash, cash equivalents and restricted cash at end of period | $ | 1,659 |  | $ | 1,310 |



See accompanying notes to consolidated financial statements.



5

**AGNC INVESTMENT CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1. Basis of Presentation**

The unaudited interim consolidated financial statements of AGNC Investment Corp. (referred throughout this report as the "Company," "we," "us" and "our") are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. In the opinion of management, all adjustments, consisting solely of normal recurring accruals, necessary for the fair presentation of financial statements for the interim period have been included. The current period’s results of operations are not necessarily indicative of results that ultimately may be achieved for the year.

Our unaudited interim consolidated financial statements include the accounts of all our wholly-owned subsidiaries and variable interest entities for which we are the primary beneficiary. Significant intercompany accounts and transactions have been eliminated.

**Note 2. Organization**

We were organized in Delaware on January 7, 2008 and commenced operations on May 20, 2008 following the completion of our initial public offering. Our common stock is traded on The Nasdaq Global Select Market under the symbol "AGNC."

We are internally-managed, and our principal objective is to provide our stockholders with attractive risk-adjusted returns through a combination of monthly dividends and tangible net book value accretion. We generate income from the interest earned on our investments, net of associated borrowing and hedging costs, and net realized gains and losses on our investment and hedging activities.

We operate to qualify to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). As a REIT, we are required to distribute annually 90% of our taxable income. As a REIT, we will generally not be subject to U.S. federal or state corporate taxes on our taxable income to the extent that we distribute our annual taxable income to our stockholders on a timely basis. It is our intention to distribute 100% of our taxable income, after application of available tax attributes, within the limits prescribed by the Internal Revenue Code, which may extend into the subsequent tax year.

We invest primarily in Agency residential mortgage-backed securities ("Agency RMBS") for which the principal and interest payments are guaranteed by a U.S. Government-sponsored enterprise ("GSE") or a U.S. Government agency. We also invest in other types of mortgage and mortgage-related securities, such as credit risk transfer ("CRT") securities and non-Agency residential and commercial mortgage-backed securities ("non-Agency RMBS" and "CMBS," respectively), where repayment of principal and interest is not guaranteed by a GSE or U.S. Government agency and in other investments in, or related to, the housing, mortgage or real estate markets. We fund our investments primarily through borrowings structured as repurchase agreements.

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

***Investment Securities***

Agency RMBS consist of residential mortgage pass-through securities and collateralized mortgage obligations ("CMOs") guaranteed by the Federal National Mortgage Association ("Fannie Mae"), Federal Home Loan Mortgage Corporation ("Freddie Mac," and together with Fannie Mae, the "GSEs") or the Government National Mortgage Association ("Ginnie Mae").

CRT securities are risk sharing instruments issued by the GSEs, and similarly structured transactions issued by third-party market participants, that transfer a portion of the risk associated with credit losses within pools of conventional residential mortgage loans from the GSEs and/or third parties to private investors. Unlike Agency RMBS, full repayment of the original principal balance of CRT securities is not guaranteed by a GSE or U.S. Government agency; rather, "credit risk transfer" is achieved by writing down the outstanding principal balance of the CRT securities if credit losses on a related pool of loans exceed certain thresholds. By reducing the amount that they are obligated to repay to holders of CRT securities, the GSEs and/or other third parties offset credit losses on the related loans.

6

Non-Agency RMBS and CMBS (together, "Non-Agency MBS") are backed by residential and commercial mortgage loans, respectively, packaged and securitized by a private institution, such as a commercial bank. Non-Agency MBS typically benefit from credit enhancements derived from structural elements, such as subordination, overcollateralization or insurance, but nonetheless carry a higher level of credit exposure than Agency RMBS.

All of our securities are reported at fair value on our consolidated balance sheet. Accounting Standards Codification ("ASC") Topic 320, *Investments—* *Debt and Equity Securities*, requires that at the time of purchase, we designate a security as held-to-maturity, available-for-sale or trading, depending on ourability and intent to hold such security to maturity. Alternatively, we may elect the fair value option of accounting for securities pursuant to ASC Topic 825, *Financial Instruments*. Prior to fiscal year 2017, we primarily designated our investment securities as available-for-sale. On January 1, 2017, we beganelecting the fair value option of accounting for all investment securities newly acquired after such date. Unrealized gains and losses on securities classified as available-for-sale are reported in accumulated other comprehensive income ("OCI"). Unrealized gains and losses on securities for which we elected the fair value option or are classified as trading are reported in net income through other gain (loss) during the period in which they occur. Upon the sale of a security designated as available-for-sale, we determine the cost of the security and the amount of unrealized gains or losses to reclassify out of accumulated OCI into earnings based on the specific identification method. In our view, the election of the fair value option simplifies the accounting for investment securities and more appropriately reflects the results of our operations for a reporting period, as the fair value changes for these assets are presented in a manner consistent with the presentation and timing of the fair value changes of our derivative instruments.

We estimate the fair value of our investment securities based on prices provided by multiple third-party pricing services and non-binding dealer quotes (collectively "pricing sources"). These pricing sources use various valuation approaches, including market and income approaches, using "Level 2" inputs. The pricing sources primarily utilize a matrix pricing technique that interpolates the estimated fair value of our Agency RMBS based on observed quoted prices for forward contracts in the Agency RMBS "to-be-announced" market ("TBA securities") of the same coupon, maturity and issuer, adjusted to reflect the specific characteristics of the pool of mortgages underlying the Agency security, which may include maximum loan balance, loan vintage, loan-to-value ratio, geography and other characteristics as may be appropriate. The pricing sources may also utilize discounted cash flow model-derived pricing techniques to estimate the fair value of investment securities. Such models incorporate market-based discount rate assumptions based on observable inputs such as recent trading activity, credit data, volatility statistics, benchmark interest rate curves and other market data that are current as of the measurement date and may include certain unobservable inputs, such as assumptions of future levels of prepayment, defaults and loss severities. We review the pricing estimates obtained from the pricing sources and perform procedures to validate their reasonableness. Refer to Note 8 for further discussion of fair value measurements.

We evaluate our investments designated as available-for-sale for other-than-temporary impairment ("OTTI") on at least a quarterly basis. The determination of whether a security is other-than-temporarily impaired may involve judgments and assumptions based on subjective and objective factors. When a security is impaired, an OTTI is considered to have occurred if any one of the following three conditions exists as of the financial reporting date:

1. we intend to sell the security (that is, a decision has been made to sell the security), (ii) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis or (iii) we do not expect to recover the security's amortized cost basis, even if we do not intend to sell the security and it is not more likely than not that we will be required to sell the security. A general allowance for unidentified impairments in a portfolio of securities is not permitted.

***Interest Income***

Interest income is accrued based on the outstanding principal amount of the investment securities and their contractual terms. Premiums or discounts associated with the purchase of Agency RMBS and non-Agency MBS of high credit quality are amortized or accreted into interest income, respectively, over the projected lives of the securities, including contractual payments and estimated prepayments, using the effective interest method in accordance with ASC Subtopic 310-20, *Receivables—Nonrefundable Fees and Other Costs*.

We estimate long-term prepayment speeds of our mortgage securities using a third-party service and market data. The third-party service provider estimates prepayment speeds using models that incorporate the forward yield curve, current mortgage rates, mortgage rates of the outstanding loans, age and size of the outstanding loans, loan-to-value ratios, interest rate volatility and other factors. We review the prepayment speeds estimated by the third-party service and compare the results to market consensus prepayment speeds, if available. We also consider historical prepayment speeds and current market conditions to validate the reasonableness of the third-party estimates. We review our actual and anticipated prepayment experience on at least a quarterly basis and effective yields are recalculated when differences arise between (i) our previously estimated future prepayments and (ii) actual prepayments to date and our current estimated future prepayments. If the actual and estimated future prepayment experience differs from our prior estimate of prepayments, we are required to record an adjustment in the current period to the amortization or accretion of premiums and discounts for the cumulative difference in the effective yield through the reporting date.

7

At the time we purchase CRT securities and non-Agency MBS that are not of high credit quality, we determine an effective yield based on our estimate of the timing and amount of future cash flows and our cost basis. Our initial cash flow estimates for these investments are based on our observations of current information and events and include assumptions related to interest rates, prepayment rates and the impact of default and severity rates on the timing and amount of credit losses. On at least a quarterly basis, we review the estimated cash flows and make appropriate adjustments based on inputs and analysis received from external sources, internal models, and our judgment regarding such inputs and other factors. Any resulting changes in effective yield are recognized prospectively based on the current amortized cost of the investment adjusted for credit impairments, if any.

***Repurchase Agreements***

We finance the acquisition of securities for our investment portfolio primarily through repurchase transactions under master repurchase agreements. Pursuant to ASC Topic 860, *Transfers and Servicing*, we account for repurchase transactions as collateralized financing transactions, which are carried at their contractual amounts (cost), plus accrued interest. Our repurchase agreements typically have maturities of less than one year but may extend up to five years or more. Interest rates on our repurchase agreements generally correspond to short-term benchmark rates plus or minus a fixed spread. The fair value of our repurchase agreements is assumed to equal cost as the interest rates are considered to be at market.

***Reverse Repurchase Agreements and Obligation to Return Securities Borrowed under Reverse Repurchase Agreements***

We borrow securities to cover short sales of U.S. Treasury securities through reverse repurchase transactions under our master repurchase agreements (see *Derivative Instruments* below). We account for these as securities borrowing transactions and recognize an obligation to return the borrowed securities at fair value on the balance sheet based on the value of the underlying borrowed securities as of the reporting date. Our reverse repurchase agreements typically have maturities of 30 days or less. The fair value of our reverse repurchase agreements is assumed to equal cost as the interest rates are considered to be at market.

***Derivative Instruments***

We use a variety of derivative instruments to hedge a portion of our exposure to market risks, including interest rate, prepayment, extension and liquidity risks. The objective of our risk management strategy is to reduce fluctuations in net book value over a range of interest rate scenarios. In particular, we attempt to mitigate the risk of the cost of our variable rate liabilities increasing during a period of rising interest rates. The primary instruments that we use are interest rate swaps, options to enter into interest rate swaps ("swaptions"), U.S. Treasury securities and U.S. Treasury futures contracts. We also use forward contracts in the Agency RMBS "to-be-announced" market, or TBA securities, to invest in and finance Agency securities and to periodically reduce our exposure to Agency RMBS.

We account for derivative instruments in accordance with ASC Topic 815, *Derivatives and Hedging* ("ASC 815"). ASC 815 requires an entity to recognize all derivatives as either assets or liabilities in our accompanying consolidated balance sheets and to measure those instruments at fair value. None of our derivative instruments have been designated as hedging instruments for accounting purposes under the provisions of ASC 815, consequently changes in the fair value of our derivative instruments are reported in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income.

Our derivative agreements generally contain provisions that allow for netting or setting off derivative assets and liabilities with the counterparty; however, we report related assets and liabilities on a gross basis in our consolidated balance sheets. Derivative instruments in a gain position are reported as derivative assets at fair value and derivative instruments in a loss position are reported as derivative liabilities at fair value in our consolidated balance sheets. Changes in fair value of derivative instruments and periodic settlements related to our derivative instruments are recorded in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income. Cash receipts and payments related to derivative instruments are classified in our consolidated statements of cash flows according to the underlying nature or purpose of the derivative transaction, generally in the investing section.

The use of derivative instruments creates exposure to credit risk relating to potential losses that could be recognized if the counterparties to these instruments fail to perform their obligations under the contracts. Our derivative agreements require that we post or receive collateral to mitigate such risk. We also attempt to minimize our risk of loss by limiting our counterparties to registered central clearing exchanges and major financial institutions with acceptable credit ratings, monitoring positions with individual counterparties and adjusting posted collateral as required.

*Interest rate swap agreements*

We use interest rate swaps to economically hedge the variable cash flows associated with our borrowings made under repurchase agreements. Under our interest rate swap agreements, we typically pay a fixed rate and receive a floating rate ("payer

8

swaps") based on three-month LIBOR or the overnight index swap rate ("OIS"). Our interest rate swaps typically have terms from one to 10 years but may extend up to 20 years or more. The majority of our interest rate swaps are centrally cleared through a registered commodities exchange. We value centrally cleared interest rate swaps using the daily settlement price, or fair value, determined by the clearing exchange based on a pricing model that references observable market inputs, including current benchmark rates and the forward yield curve. Our centrally cleared swaps require that we post an "initial margin" amount determined by the clearing exchange, which is generally intended to be set at a level sufficient to protect the exchange from the interest rate swap's maximum estimated single-day price movement. We also exchange daily settlements of "variation margin" based upon changes in fair value, as measured by the exchange. Pursuant to rules governing central clearing activities, we recognize variation margin settlements as a direct reduction of the carrying value of the interest rate swap asset or liability.

We value non-centrally cleared swaps using a combination of third-party valuations obtained from pricing services and the swap counterparty. The third-party valuations are model-driven using observable inputs, including LIBOR, swap rates and the forward yield curve. We also consider both our own and our counterparties' nonperformance risk in estimating the fair value of our interest rate swaps. In considering the effect of nonperformance risk, we assess the impact of netting and credit enhancements, such as collateral postings and guarantees, and have concluded that our own and our counterparty risk is not significant to the overall valuation of these agreements.

*Interest rate swaptions*

We purchase interest rate swaptions to help mitigate the potential impact of larger, more rapid changes in interest rates on the performance of our investment portfolio. Interest rate swaptions provide us the option to enter into an interest rate swap agreement for a predetermined notional amount, stated term and pay and receive interest rates in the future. Our interest rate swaption agreements are not subject to central clearing. The premium paid for interest rate swaptions is reported as an asset in our consolidated balance sheets. We estimate the fair value of interest rate swaptions using a combination of inputs from counterparty and third-party pricing models based on the fair value of the future interest rate swap that we have the option to enter into as well as the remaining length of time that we have to exercise the option, adjusted for non-performance risk, if any. The difference between the premium paid and the fair value of the swaption is reported in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income. If a swaption expires unexercised, the realized loss on the swaption would be equal to the premium paid. If we sell or exercise a swaption, the realized gain or loss on the swaption would be equal to the difference between the cash or the fair value of the underlying interest rate swap and the premium paid.

*TBA securities*

A TBA security is a forward contract for the purchase or sale of Agency RMBS at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date. The specific Agency RMBS to be delivered into the contract are not known until shortly before the settlement date. We may choose, prior to settlement, to move the settlement of these securities out to a later date by entering into an offsetting TBA position, net settling the offsetting positions for cash, and simultaneously purchasing or selling a similar TBA contract for a later settlement date (together referred to as a "dollar roll transaction"). The Agency securities purchased or sold for a forward settlement date are typically priced at a discount to equivalent securities settling in the current month. This difference, or "price drop," is the economic equivalent of interest income on the underlying Agency securities, less an implied funding cost, over the forward settlement period (referred to as "dollar roll income"). Consequently, forward purchases of Agency securities and dollar roll transactions represent a form of off-balance sheet financing.

We account for TBA contracts as derivative instruments since either the TBA contracts do not settle in the shortest period of time possible or we cannot assert that it is probable at inception and throughout the term of the TBA contract that we will physically settle the contract on the settlement date. We account for TBA dollar roll transactions as a series of derivative transactions. We estimate the fair value of TBA securities based on similar methods used to value our Agency RMBS securities.

*U.S. Treasury securities*

We use U.S. Treasury securities and U.S. Treasury futures contracts to mitigate the potential impact of changes in interest rates on the performance of our portfolio. We borrow U.S. Treasury securities under reverse repurchase agreements to cover short sales of U.S. Treasury securities. We account for these as securities borrowing transactions and recognize an obligation to return the borrowed securities at fair value on our accompanying consolidated balance sheets based on the value of the underlying U.S. Treasury security as of the reporting date. Gains and losses associated with U.S. Treasury securities and U.S. Treasury futures contracts are recognized in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income.

9

***Recent Accounting Pronouncements***

We consider the applicability and impact of all Accounting Standards Updates ("ASUs") issued by the Financial Accounting Standards Board. ASUs not listed below were determined to be either not applicable, are not expected to have a significant impact on our consolidated financial statements when adopted or did not have a significant impact on our consolidated financial statements upon adoption.

*ASU 2016-13, Financial Instruments - Credit Losses (Topic 326):* ASU 2016-13 changes the impairment model for most financial assets and certainother instruments. Rather than a direct reduction of the amortized cost of available-for-sale investments for an other-than-temporary-impairment, an allowance for the portion attributed to expected credit loss is recorded; the remaining loss unrelated to credit, such as due to changes in interest rates, continues to be recorded through OCI. The new model also requires the estimation of lifetime expected credit losses and corresponding recognition of allowance for losses on trade and other receivables, held-to-maturity debt securities, loans, and other instruments held at amortized cost. The ASU requires certain recurring disclosures and is effective for annual periods, and interim periods within those annual periods, beginning on or after December 15, 2019, with early adoption permitted for annual periods, and interim periods within those annual periods, beginning on or after December 15, 2018. ASU 2016-13 is not expected to have a significant impact on our consolidated financial statements.

**Note 4. Investment Securities**

As of June 30, 2019 and December 31, 2018, our investment portfolio consisted of $93.3 billion and $84.3 billion of investment securities, at fair value, respectively, and $11.2 billion and $7.3 billion of TBA securities, at fair value, respectively. Our TBA position is reported at its net carrying value of $84 million and $70 million as of June 30, 2019 and December 31, 2018, respectively, in derivative assets / (liabilities) on our accompanying consolidated balance sheets. The net carrying value of our TBA position represents the difference between the fair value of the underlying Agency security in the TBA contract and the cost basis or the forward price to be paid or received for the underlying Agency security.

As of June 30, 2019 and December 31, 2018, our investment securities had a net unamortized premium balance of $3.0 billion and $2.9 billion, respectively.

The following tables summarize our investment securities as of June 30, 2019 and December 31, 2018, excluding TBA securities, (dollars in millions).

Details of our TBA securities as of each of the respective dates are included in Note 6.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **June 30, 2019** | | |  |  |  | **December 31, 2018** | | | |  |
| **Investment Securities** |  |  | **Amortized** | |  | **Fair Value** |  |  | **Amortized** | |  | **Fair Value** |  |
|  | **Cost** |  |  |  | **Cost** |  |  |  |
| Agency RMBS: | |  |  |  |  |  |  |  |  |  |  |  |  |
| Fixed rate | | $ | 89,384 |  | $ | 90,627 |  | $ | 83,047 |  | $ | 81,753 |  |
| Adjustable rate | |  | 186 |  |  | 188 |  |  | 212 |  |  | 213 |  |
| CMO | |  | 517 |  |  | 524 |  |  | 588 |  |  | 583 |  |
| Interest-only and principal-only strips | |  | 159 |  |  | 179 |  |  | 172 |  |  | 178 |  |
| Multifamily | |  | 30 |  |  | 33 |  |  | — | |  | — |  |
| Total Agency RMBS | |  | 90,276 |  |  | 91,551 |  |  | 84,019 |  |  | 82,727 |  |
| Non-Agency RMBS | |  | 250 |  |  | 262 |  |  | 264 |  |  | 266 |  |
| CMBS | |  | 321 |  |  | 341 |  |  | 280 |  |  | 282 |  |
| CRT securities | |  | 1,106 |  |  | 1,117 |  |  | 1,006 |  |  | 1,012 |  |
| Total investment securities | | $ | 91,953 |  | $ | 93,271 |  | $ | 85,569 |  | $ | 84,287 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

10

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  | **June 30, 2019** | | |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  | **Agency RMBS** | | |  |  |  |  | **Non-Agency** | | | |  |  |  |  |  |  |  |
| **Investment Securities** |  |  | **Fannie Mae** |  | **Freddie Mac** | |  |  | **Ginnie** | |  | **RMBS** |  |  | **CMBS** |  |  | **CRT** |  |  | **Total** |  |
|  |  | **Mae** |  |  |  |  |  |  |
| Available-for-sale securities: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Par value | | $ | 15,743 |  | $ | 5,221 |  | $ | 22 |  | $ | — | | $ | — | | $ | — | | $ | 20,986 |  |
| Unamortized discount | |  | (11) |  |  | (2) |  |  | — | |  | — | |  | — | |  | — | |  | (13) |  |
| Unamortized premium | |  | 782 |  |  | 304 |  |  | — |  |  | — |  |  | — |  |  | — |  |  | 1,086 |  |
| Amortized cost | |  | 16,514 |  |  | 5,523 |  |  | 22 |  |  | — | |  | — | |  | — | |  | 22,059 |  |
| Gross unrealized gains | |  | 74 |  |  | 14 |  |  | 1 |  |  | — | |  | — | |  | — | |  | 89 |  |
| Gross unrealized losses | |  | (174) |  |  | (79) |  |  | — |  |  | — |  |  | — |  |  | — |  |  | (253) |  |
| Total available-for-sale securities, at fair value | |  | 16,414 |  |  | 5,458 |  |  | 23 |  |  | — | |  | — | |  | — | |  | 21,895 |  |
| Securities remeasured at fair value through earnings: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Par value | |  | 37,474 |  |  | 28,772 |  |  | — | |  | 255 |  |  | 318 |  |  | 1,075 |  |  | 67,894 |  |
| Unamortized discount | |  | (69) |  |  | (2) |  |  | — | |  | (8) |  |  | (3) |  |  | (1) |  |  | (83) |  |
| Unamortized premium | |  | 1,084 |  |  | 958 |  |  | — |  |  | 3 |  |  | 6 |  |  | 32 |  |  | 2,083 |  |
| Amortized cost | |  | 38,489 |  |  | 29,728 |  |  | — | |  | 250 |  |  | 321 |  |  | 1,106 |  |  | 69,894 |  |
| Gross unrealized gains | |  | 879 |  |  | 591 |  |  | — | |  | 12 |  |  | 20 |  |  | 15 |  |  | 1,517 |  |
| Gross unrealized losses | |  | (23) |  |  | (8) |  |  | — |  |  | — |  |  | — |  |  | (4) |  |  | (35) |  |
| Total securities remeasured at fair value through earnings | |  | 39,345 |  |  | 30,311 |  |  | — | |  | 262 |  |  | 341 |  |  | 1,117 |  |  | 71,376 |  |
| Total securities, at fair value | | $ | 55,759 |  | $ | 35,769 |  | $ | 23 |  | $ | 262 |  | $ | 341 |  | $ | 1,117 |  | $ | 93,271 |  |
| Weighted average coupon as of June 30, 2019 | |  | 3.82% |  |  | 3.92% |  |  | 3.76% |  |  | 4.21% |  |  | 4.71% |  |  | 5.55% |  |  | 3.88% |  |
| Weighted average yield as of June 30, 2019 1 | |  | 3.17% |  |  | 3.21% |  |  | 2.07% |  |  | 4.33% |  |  | 4.45% |  |  | 4.03% |  |  | 3.21% |  |

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1. Incorporates a weighted average future constant prepayment rate assumption of 12.4% based on forward rates as of June 30, 2019.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  | **December 31, 2018** | | | | | |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  | **Agency RMBS** | | |  |  |  |  |  | **Non-Agency** | | | | |  |  |  |  |  |  |  |
| **Investment Securities** |  |  | **Fannie** | | **Freddie Mac** | |  |  | **Ginnie** |  |  |  | **RMBS** |  |  |  | **CMBS** |  |  | **CRT** |  |  | **Total** |  |
|  | **Mae** |  |  | **Mae** |  |  |  |  |  |  |  |
| Available-for-sale securities: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Par value | | $ | 17,591 |  | $ | 5,673 |  | $ | 25 | $ | | | 6 |  |  | $ | — | | $ | — | | $ | 23,295 |  |
| Unamortized discount | |  | (10) |  |  | (2) |  |  | — |  |  |  | — | | |  | — | |  | — | |  | (12) |  |
| Unamortized premium | |  | 912 |  |  | 343 |  |  | — |  |  |  | — |  |  |  | — |  |  | — |  |  | 1,255 |  |
| Amortized cost | |  | 18,493 |  |  | 6,014 |  |  | 25 |  |  |  | 6 |  |  |  | — | |  | — | |  | 24,538 |  |
| Gross unrealized gains | |  | 4 |  |  | 2 |  |  | 1 |  |  |  | — | | |  | — | |  | — | |  | 7 |  |
| Gross unrealized losses | |  | (686) |  |  | (264) |  |  | — |  |  |  | — |  |  |  | — |  |  | — |  |  | (950) |  |
| Total available-for-sale securities, at fair value | |  | 17,811 |  |  | 5,752 |  |  | 26 |  |  |  | 6 |  |  |  | — | |  | — | |  | 23,595 |  |
| Securities remeasured at fair value through earnings: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Par value | |  | 39,453 |  |  | 18,428 |  |  | — |  |  |  | 268 |  |  |  | 281 |  |  | 968 |  |  | 59,398 |  |
| Unamortized discount | |  | (78) |  |  | (9) |  |  | — |  |  |  | (10) |  |  |  | (6) |  |  | — | |  | (103) |  |
| Unamortized premium | |  | 1,055 |  |  | 638 |  |  | — |  |  |  | — | | |  | 5 |  |  | 38 |  |  | 1,736 |  |
| Amortized cost | |  | 40,430 |  |  | 19,057 |  |  | — |  |  |  | 258 |  |  |  | 280 |  |  | 1,006 |  |  | 61,031 |  |
| Gross unrealized gains | |  | 223 |  |  | 57 |  |  | — |  |  |  | 2 |  |  |  | 3 |  |  | 18 |  |  | 303 |  |
| Gross unrealized losses | |  | (386) |  |  | (243) |  |  | — |  |  |  | — | | |  | (1) |  |  | (12) |  |  | (642) |  |
| Total securities remeasured at fair value through earnings | |  | 40,267 |  |  | 18,871 |  |  | — |  |  |  | 260 |  |  |  | 282 |  |  | 1,012 |  |  | 60,692 |  |
| Total securities, at fair value | | $ | 58,078 |  | $ | 24,623 |  | $ | 26 | $ | | | 266 |  |  | $ | 282 |  | $ | 1,012 |  | $ | 84,287 |  |
| Weighted average coupon as of December 31, 2018 | |  | 3.82% |  |  | 3.87% |  |  | 3.37% |  |  |  | 3.83% |  |  |  | 4.58% |  |  | 5.86% |  |  | 3.86% |  |
| Weighted average yield as of December 31, 2018 1 | |  | 3.28% |  |  | 3.28% |  |  | 2.04% |  |  |  | 4.22% |  |  |  | 4.68% |  |  | 5.16% |  |  | 3.31% |  |

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1. Incorporates a weighted average future constant prepayment rate assumption of 7.9% based on forward rates as of December 31, 2018.

11

As of June 30, 2019 and December 31, 2018, our investments in CRT and non-Agency securities had the following credit ratings:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | **June 30, 2019** | |  |  |  |  |  | **December 31, 2018** | | | |  |  |  |
| **CRT and Non-Agency Security Credit Ratings 1** |  |  | **CRT** |  |  | **RMBS** |  |  | **CMBS** |  |  | **CRT** |  |  | **RMBS** |  |  | **CMBS** |  |
| AAA | | $ | — | | $ | — | | $ | 29 |  | $ | — | $ | | 160 |  | $ | 52 |  |
| AA | |  | — | |  | 103 |  |  | 211 |  |  | — |  |  | 17 |  |  | 152 |  |
| A | |  | — | |  | 73 |  |  | 28 |  |  | 17 |  |  | 33 |  |  | 15 |  |
| BBB | |  | 14 |  |  | 73 |  |  | 62 |  |  | 25 |  |  | 43 |  |  | 53 |  |
| BB | |  | 538 |  |  | 8 |  |  | 11 |  |  | 492 |  |  | 8 |  |  | 10 |  |
| B | |  | 502 |  |  | 2 |  |  | — | |  | 453 |  |  | 2 |  |  | — |  |
| Not Rated | |  | 63 |  |  | 3 |  |  | — |  |  | 25 |  |  | 3 |  |  | — |  |
| Total | | $ | 1,117 |  | $ | 262 |  | $ | 341 |  | $ | 1,012 | $ | | 266 |  | $ | 282 |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. Represents the lowest of Standard and Poor's ("S&P"), Moody's, Fitch, DBRS, Kroll Bond Rating Agency ("KBRA") and Morningstar credit ratings, stated in terms of the S&P equivalent rating as of each date.

Our CRT securities reference the performance of loans underlying Agency RMBS issued by Fannie Mae or Freddie Mac, which were subject to their underwriting standards. As of June 30, 2019, our CRT securities had floating and fixed rate coupons ranging from 3.0% to 8.8%, referenced to loans originated between 2011 and 2018 with weighted average coupons ranging from 3.7% to 4.9%. As of December 31, 2018, our CRT securities had floating rate coupons ranging from 3.9% to 9.5%, referenced to loans originated between 2011 and 2018 with weighted average coupons ranging from 3.8% to 4.8%.

The actual maturities of our investment securities are generally shorter than their stated contractual maturities. The actual maturities of our Agency and high credit quality non-Agency RMBS are primarily affected by principal prepayments and to a lesser degree the contractual lives of the underlying mortgages and periodic contractual principal repayments. The actual maturities of our credit-oriented investments are primarily impacted by their contractual lives and default and loss recovery rates. As of June 30, 2019 and December 31, 2018, the weighted average expected constant prepayment rate ("CPR") over the remaining life of our Agency and high credit quality non-Agency RMBS investment portfolio was 12.4% and 7.9%, respectively. Our estimates can differ materially for different securities and thus our individual holdings have a wide range of projected CPRs. The following table summarizes our investments as of June 30, 2019 and December 31, 2018 according to their estimated weighted average life classification (dollars in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | **June 30, 2019** | | | |  |  |  |  |  |  | **December 31, 2018** | | | |  |  |
| **Estimated Weighted Average Life of** | |  |  |  |  | **Amortized** | | **Weighted** | | **Weighted** | |  |  |  |  | **Amortized** | | **Weighted** | | **Weighted** |  |
|  | **Fair Value** |  |  | **Average** | | **Average** | |  | **Fair Value** |  |  | **Average** | | **Average** |  |
| **Investment Securities** |  |  |  | **Cost** |  | **Coupon** |  | **Yield** |  |  |  | **Cost** |  | **Coupon** |  | **Yield** |  |
| ≥ 1 year and ≤ 3 years | | $ | 3,414 |  | $ | 3,371 |  | 3.94% |  | 3.02% |  | $ | 1,690 |  | $ | 1,716 |  | 3.99% |  | 2.64% |  |
| > 3 years and ≤ 5 years | |  | 18,878 |  |  | 18,545 |  | 3.80% |  | 3.21% |  |  | 5,518 |  |  | 5,586 |  | 3.35% |  | 2.73% |  |
| > 5 years and ≤10 years | |  | 70,777 |  |  | 69,839 |  | 3.90% |  | 3.21% |  |  | 72,503 |  |  | 73,588 |  | 3.92% |  | 3.37% |  |
| > 10 years | |  | 202 |  |  | 198 |  | 3.64% |  | 3.37% |  |  | 4,576 |  |  | 4,679 |  | 3.57% |  | 3.30% |  |
| Total | | $ | 93,271 |  | $ | 91,953 |  | 3.88% |  | 3.21% |  | $ | 84,287 |  | $ | 85,569 |  | 3.86% |  | 3.31% |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

The following table presents the gross unrealized loss and fair values of securities classified as available-for-sale by length of time that such securities have been in a continuous unrealized loss position as of June 30, 2019 and December 31, 2018 (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  | **Unrealized Loss Position For** | | | | |  |  |  |  |  |  |  |
|  |  |  | **Less than 12 Months** | | | |  |  | **12 Months or More** | | | |  |  |  | **Total** | | |  |  |
| **Securities Classified as Available-for-Sale** |  |  | **Fair** | |  | **Unrealized** | |  | **Fair Value** |  |  | **Unrealized** | |  | **Fair** |  |  |  | **Unrealized** |  |
|  | **Value** |  |  | **Loss** |  |  |  | **Loss** |  |  | **Value** |  |  |  | **Loss** |  |
| June 30, 2019 | | $ | 2 |  | $ | (1) |  | $ | 15,352 |  | $ | (252) |  | $ | 15,354 | $ | | | (253) |  |
| December 31, 2018 | | $ | 4,783 |  | $ | (72) |  | $ | 18,231 |  | $ | (878) |  | $ | 23,014 | $ | | | (950) |  |

We did not recognize OTTI charges on our investment securities during the periods presented on our consolidated statements of operations. As of the end of each respective reporting period, a decision had not been made to sell securities in an unrealized loss position and we did not believe it was more likely than not that we would be required to sell such securities before recovery of their amortized cost basis. The unrealized losses on our securities were not due to credit losses given the GSE or U.S. Government

12

agency guarantees, but rather were due to changes in interest rates and prepayment expectations. However, as we continue to actively manage our portfolio, we may recognize additional realized losses on our investment securities upon selecting specific securities to sell.

***Gains and Losses on Sale of Investment Securities***

The following table is a summary of our net gain (loss) from the sale of investment securities for the three and six months ended June 30, 2019 and

2018 by investment classification of accounting (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  | **Three Months Ended June 30,** | | | | |  |  |  |  |  |
|  |  |  |  |  |  | **2019** |  |  |  |  |  |  |  |  | **2018** |  |  |  |
|  |  | **Available-for-** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | **Sale** | | **Fair Value Option** | | |  |  |  | **Available-for-Sale** | | | **Fair Value Option** | | |  |  |
| **Investment Securities** |  |  | **Securities 2** |  |  | **Securities** |  |  | **Total** |  |  | **Securities 2** |  |  | **Securities** |  |  | **Total** |
| Investment securities sold, at cost | | $ | (366) |  | $ | (7,769) |  | $ | (8,135) |  | $ | (1,449) |  | $ | (1,975) |  | $ | (3,424) |
| Proceeds from investment securities sold 1 | |  | 361 |  |  | 7,906 |  |  | 8,267 |  |  | 1,429 |  |  | 1,921 |  |  | 3,350 |
| Net gain (loss) on sale of investment securities | | $ | (5) |  | $ | 137 |  | $ | 132 |  | $ | (20) |  | $ | (54) |  | $ | (74) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gross gain on sale of investment securities | | $ | — | | $ | 138 |  | $ | 138 |  | $ | 2 |  | $ | 3 |  | $ | 5 |
| Gross loss on sale of investment securities | |  | (5) |  |  | (1) |  |  | (6) |  |  | (22) |  |  | (57) |  |  | (79) |
| Net gain (loss) on sale of investment securities | | $ | (5) |  | $ | 137 |  | $ | 132 |  | $ | (20) |  | $ | (54) |  | $ | (74) |
|  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  | **Six Months Ended June 30,** | | | | |  |  |  |  |  |
|  |  |  |  |  |  | **2019** |  |  |  |  |  |  |  |  | **2018** |  |  |  |
|  |  | **Available-for-** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | **Sale** | | **Fair Value Option** | | |  |  |  | **Available-for-Sale** | | | **Fair Value Option** | | |  |  |
| **Investment Securities** |  |  | **Securities 2** |  |  | **Securities** |  |  | **Total** |  |  | **Securities 2** |  |  | **Securities** |  |  | **Total** |
| Investment securities sold, at cost | | $ | (705) |  | $ | (12,331) |  | $ | (13,036) |  | $ | (1,836) |  | $ | (2,978) |  | $ | (4,814) |
| Proceeds from investment securities sold 1 | |  | 696 |  |  | 12,532 |  |  | 13,228 |  |  | 1,817 |  |  | 2,921 |  |  | 4,738 |
| Net gain (loss) on sale of investment securities | | $ | (9) |  | $ | 201 |  | $ | 192 |  | $ | (19) |  | $ | (57) |  | $ | (76) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gross gain on sale of investment securities | | $ | — | | $ | 204 |  | $ | 204 |  | $ | 5 |  | $ | 10 |  | $ | 15 |
| Gross loss on sale of investment securities | |  | (9) |  |  | (3) |  |  | (12) |  |  | (24) |  |  | (67) |  |  | (91) |
| Net gain (loss) on sale of investment securities | | $ | (9) |  | $ | 201 |  | $ | 192 |  | $ | (19) |  | $ | (57) |  | $ | (76) |



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1. Proceeds include cash received during the period, plus receivable for investment securities sold during the period as of period end.
2. See Note 10 for a summary of changes in accumulated OCI.

***Consolidated Variable Interest Entities***

As of June 30, 2019 and December 31, 2018, our consolidated financial statements reflect the consolidation of certain variable interest entities ("VIEs") for which we have determined we are the primary beneficiary. The consolidated VIEs consist of CMO trusts backed by fixed or adjustable-rate Agency RMBS. Fannie Mae or Freddie Mac guarantees the payment of interest and principal and acts as the trustee and administrator of their respective securitization trusts. Accordingly, we are not required to provide the beneficial interest holders of the CMO securities any financial or other support. Our maximum exposure to loss related to our involvement with the CMO trusts is the fair value of the CMO securities and interest and principal-only securities held by us, less principal amounts guaranteed by Fannie Mae and Freddie Mac.

**Note 5. Repurchase Agreements and Other Debt**

***Repurchase Agreements***

We pledge our securities as collateral under our borrowings structured as repurchase agreements with financial institutions. Amounts available to be borrowed are dependent upon the fair value of the securities pledged as collateral, which fluctuates with changes in interest rates, type of security and liquidity conditions within the banking, mortgage finance and real estate industries. If the fair value of our pledged securities declines, lenders will typically require us to post additional collateral or pay down borrowings to re-establish agreed upon collateral requirements, referred to as "margin calls." Similarly, if the fair value of our pledged securities increases, lenders may release collateral back to us. As of June 30, 2019, we had met all margin call requirements. For additional information regarding our pledged assets, please refer to Note 7.

As of June 30, 2019 and December 31, 2018, we had $86.3 billion and $75.7 billion, respectively, of repurchase agreements outstanding used to fund our investment portfolio and temporary holdings of U.S. Treasury securities. The terms and conditions

13

of our repurchase agreements are typically negotiated on a transaction-by-transaction basis. Our repurchase agreements with original maturities greater than one year have floating interest rates based on an index plus or minus a fixed spread. The following table summarizes our borrowings under repurchase agreements by their remaining maturities as of June 30, 2019 and December 31, 2018 (dollars in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **June 30, 2019** | |  |  |  |  |  | **December 31, 2018** | |  |  |
|  |  |  |  |  | **Weighted** | | **Weighted** | |  |  |  | **Weighted** | | **Weighted** |  |
|  |  |  | **Repurchase** | | **Average** | |  | **Repurchase** | | **Average** | |  |
| **Remaining Maturity** |  |  | **Interest** | | **Average Days** | |  | **Interest** | | **Average Days** |  |
|  | **Agreements** |  | **Rate** |  | **to Maturity** |  |  | **Agreements** |  | **Rate** |  | **to Maturity** |  |
| Agency repo: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| ≤ 1 month | | $ | 47,110 |  | 2.68% |  | 9 |  | $ | 48,533 |  | 2.88% |  | 9 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| > 1 to ≤ 3 months | |  | 18,572 |  | 2.57% |  | 57 |  |  | 20,991 |  | 2.57% |  | 56 |  |
| > 3 to ≤ 6 months | |  | 3,891 |  | 2.63% |  | 105 |  |  | 2,218 |  | 2.65% |  | 167 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| > 6 to ≤ 9 months | |  | 9,102 |  | 2.67% |  | 195 |  |  | 200 |  | 3.19% |  | 208 |  |
| > 9 to ≤ 12 months | |  | 4,116 |  | 2.46% |  | 293 |  |  | 950 |  | 2.80% |  | 279 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| > 12 to ≤ 24 months | |  | 925 |  | 3.01% |  | 556 |  |  | 2,200 |  | 2.91% |  | 438 |  |
| > 24 to ≤ 36 months | |  | 1,400 |  | 2.60% |  | 992 |  |  | 625 |  | 3.11% |  | 776 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total Agency repo | |  | 85,116 |  | 2.64% |  | 80 |  |  | 75,717 |  | 2.79% |  | 49 |  |
| U.S. Treasury repo: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| > 1 day to ≤ 1 month | |  | 1,150 |  | 2.41% |  | 1 |  |  | — | | —% | | — |  |
| Total | | $ | 86,266 |  | 2.64% |  | 79 |  | $ | 75,717 |  | 2.79% |  | 49 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

As of June 30, 2019 and December 31, 2018, $14.0 billion and $19.5 billion, respectively, of our repurchase agreements had a remaining maturity of one business day and none of our repurchase agreements were due on demand. As of June 30, 2019, we had $4.8 billion of forward commitments to enter into repurchase agreements, with a weighted average forward start date of 122 days and a weighted average interest rate of 2.56%. As of December 31, 2018 we had $10.7 billion of forward commitments to enter into repurchase agreements, with a weighted average forward start date of 9 days and a weighted average interest rate of 2.90%. As of June 30, 2019 and December 31, 2018, 42% and 35%, respectively, of our repurchase agreement funding was sourced through our wholly-owned captive broker-dealer subsidiary, Bethesda Securities, LLC ("BES"). Amounts sourced through BES include funding from the General Collateral Finance Repo service ("GCF Repo") offered by the Fixed Income Clearing Corporation ("FICC"), which totaled 41% and 33% of our repurchase agreement funding outstanding as of June 30, 2019 and December 31, 2018, respectively.

***Reverse Repurchase Agreements***

As of June 30, 2019 and December 31, 2018, we had $8.8 billion and $21.8 billion, respectively, of reverse repurchase agreements outstanding used primarily to borrow securities to cover short sales of U.S. Treasury securities, for which we had associated obligations to return borrowed securities at fair value of $7.8 billion and $21.4 billion, respectively. As of June 30, 2019 and December 31, 2018, $4.4 billion and $4.5 billion, respectively, of our reverse repurchase agreements were with the FICC sourced through BES.

***Other Debt***

As of June 30, 2019 and December 31, 2018, we had debt of consolidated VIEs, at fair value, of $251 million and $275 million, respectively, which had a weighted average interest rate of LIBOR plus 51 and 40 basis points, respectively, and an estimated weighted average life of 5.6 years and 6.1 years, respectively.

**Note 6. Derivative and Other Hedging Instruments**

We hedge a portion of our interest rate risk primarily utilizing interest rate swaps, interest rate swaptions, U.S. Treasury securities and U.S. Treasury futures contracts. We utilize TBA securities primarily as a means of investing in the Agency securities market. For additional information regarding our derivative instruments and our overall risk management strategy, please refer to the discussion of derivative and other hedging instruments in Note 3.

14

***Derivative and Other Hedging Instrument Assets (Liabilities), at Fair Value***

The table below summarizes fair value information about our derivative and other hedging instrument assets/(liabilities) as of June 30, 2019 and

December 31, 2018 (in millions):

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Derivative and Other Hedging Instruments** |  | **Balance Sheet Location** |  |  | **June 30, 2019** |  | **December 31, 2018** | |
| Interest rate swaps | | Derivative assets, at fair value | | $ | 3 |  | $ | 126 |
|  |  |  |  |  |  |  |  |  |
| Swaptions | | Derivative assets, at fair value | |  | 22 |  |  | 37 |
| TBA securities | | Derivative assets, at fair value | |  | 91 |  |  | 110 |
|  |  |  |  |  |  |  |  |  |
| Total derivative assets, at fair value | |  |  | $ | 116 |  | $ | 273 |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| Interest rate swaps | | Derivative liabilities, at fair value | | $ | (19) |  | $ | — |
| TBA securities | | Derivative liabilities, at fair value | |  | (7) |  |  | (40) |
|  |  |  |  |  |  |  |  |  |
| U.S. Treasury futures - short | | Derivative liabilities, at fair value | |  | (37) |  |  | (44) |
| Total derivative liabilities, at fair value | |  |  | $ | (63) |  | $ | (84) |
|  |  |  |  |  |  |  |  |  |
| U.S. Treasury securities - long | | U.S. Treasury securities, at fair value | | $ | 1,152 |  | $ | 46 |
|  |  |  |  |  |  |  |  |  |
|  |  | Obligation to return securities borrowed under reverse | |  |  |  |  |  |
| U.S. Treasury securities - short | | repurchase agreements, at fair value | |  | (7,754) |  |  | (21,431) |
| Total U.S. Treasury securities, net at fair value | |  |  | $ | (6,602) |  | $ | (21,385) |
|  |  |  |  |  |  |  |  |  |

The following tables summarize certain characteristics of our derivative and other hedging instruments outstanding as of June 30, 2019 and

December 31, 2018 (dollars in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **June 30, 2019** | | | |  |  |  |  |  | **December 31, 2018** | | | |  |  |
| **Pay Fixed / Receive Variable** | |  | **Notional** | | **Average** | | **Average** | | **Average** | |  | **Notional** | | **Average** | | **Average** | | **Average** |  |
|  | **Fixed Pay** | | **Receive** | | **Maturity** | |  | **Fixed Pay** | | **Receive** | | **Maturity** |  |
| **Interest Rate Swaps** |  |  | **Amount** |  | **Rate** |  | **Rate 1** |  | **(Years)** |  |  | **Amount 2** |  | **Rate 3** |  | **Rate 1** |  | **(Years)** |  |
| ≤ 3 years | | $ | 49,725 |  | 1.63% |  | 2.44% |  | 1.8 |  | $ | 19,900 |  | 1.63% |  | 2.62% |  | 1.3 |  |
| > 3 to ≤ 5 years | |  | 11,000 |  | 1.71% |  | 2.46% |  | 4.0 |  |  | 8,425 |  | 2.06% |  | 2.61% |  | 4.0 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| > 5 to ≤ 7 years | |  | 4,250 |  | 1.91% |  | 2.46% |  | 5.9 |  |  | 7,875 |  | 2.66% |  | 2.66% |  | 6.1 |  |
| > 7 to ≤ 10 years | |  | 8,800 |  | 2.10% |  | 2.51% |  | 8.5 |  |  | 10,550 |  | 2.36% |  | 2.64% |  | 8.8 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| > 10 years | |  | 1,175 |  | 2.21% |  | 2.48% |  | 14.5 |  |  | 4,875 |  | 2.77% |  | 2.63% |  | 11.6 |  |
| Total | | $ | 74,950 |  | 1.72% |  | 2.46% |  | 3.3 |  | $ | 51,625 |  | 2.11% |  | 2.63% |  | 5.0 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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1. As of June 30, 2019, the receive rates on 42% and 58% of our interest rate swaps were linked to three-month LIBOR and the overnight index swap rate, respectively. As of December 31, 2018, all of our interest rate swaps were linked to three-month LIBOR.
2. As of December 31, 2018, notional amount includes forward starting swaps of $5.7 billion with an average forward start date of 0.5 years.
3. Average fixed pay rate as of December 31, 2018 includes forward starting swaps. Excluding forward starting swaps, the average fixed pay rate was 1.98% as of December 31, 2018.

15

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Swaptions** |  |  |  |  |  | **Option** | |  |  |  |  |  | **Underlying Payer Swap** | | | |  |  |
|  |  |  |  |  |  |  |  | **Average** | |  |  |  |  |  | **Average** | |  |  |
|  |  |  |  |  |  |  |  | **Months to** | |  |  |  | **Average Fixed** | | **Average** |  |
|  |  |  |  |  |  |  |  | **Current Option** | |  | **Notional** | | **Receive** | |  |
| **Current Option Expiration Date** |  |  | **Cost Basis** |  |  | **Fair Value** |  | **Expiration** | |  | **Pay** | | **Rate** | | **Term** |  |
|  |  | **Date 1** |  |  | **Amount** |  | **Rate** |  | **(LIBOR)** |  | **(Years)** |  |
| **June 30, 2019** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| ≤ 1 year | | $ | 72 |  | $ | 3 |  | 5 |  | $ | 1,750 |  | 3.03% |  | 3M | | 7.1 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| > 1 year ≤ 2 years | |  | 37 |  |  | 19 |  | 21 |  |  | 2,650 |  | 2.86% |  | 3M | | 10.0 |  |
| Total | | $ | 109 |  | $ | 22 |  | 15 |  | $ | 4,400 |  | 2.93% |  | 3M |  | 8.8 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **December 31, 2018** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| ≤ 1 year | | $ | 80 |  | $ | 23 |  | 4 |  | $ | 3,000 |  | 2.96% |  | 3M | | 7.0 |  |
| > 1 year ≤ 2 years | |  | 18 |  |  | 14 |  | 18 |  |  | 500 |  | 2.78% |  | 3M | | 10.0 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total | | $ | 98 |  | $ | 37 |  | 6 |  | $ | 3,500 |  | 2.93% |  | 3M | | 7.4 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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1. As of June 30, 2019 and December 31, 2018, ≤ 1 year notional amount includes $700 million of Bermudan swaptions where the options may be exercised on predetermined dates up to their final exercise date, which is six months prior to the underlying swaps' maturity date.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **U.S. Treasury Securities** |  |  |  |  |  | **June 30, 2019** | |  |  |  |  |  |  | **December 31, 2018** | | |  |  |  |
| **Maturity** |  |  | **Face Amount** | |  | **Cost Basis 1** |  |  | **Fair Value** |  |  | **Face Amount** | |  | **Cost Basis 1** |  |  | **Fair Value** |  |
|  | **Long/(Short)** |  |  |  |  | **Long/(Short)** |  |  |  |  |
| 5 years | | $ | 154 |  | $ | 154 |  | $ | 159 |  | $ | (703) |  | $ | (706) |  | $ | (713) |  |
| 7 years | |  | 890 |  |  | 900 |  |  | 900 |  |  | (14,357) |  |  | (14,325) |  |  | (14,410) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 10 years | |  | (7,155) |  |  | (7,218) |  |  | (7,661) |  |  | (6,240) |  |  | (6,224) |  |  | (6,262) |  |
| Total U.S. Treasury securities | | $ | (6,111) |  | $ | (6,164) |  | $ | (6,602) |  | $ | (21,300) |  | $ | (21,255) |  | $ | (21,385) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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1. As of June 30, 2019 and December 31, 2018, our short U.S. Treasury securities had a weighted average yield of 2.71% and 2.66%, respectively. As of June 30, 2019, our long U.S. Treasury securities had a weighted average yield of 1.88%.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **U.S. Treasury Futures** | |  |  |  |  | **June 30, 2019** | | |  |  |  |  |  |  |  |  |  | **December 31, 2018** | | | | |  |  |
|  |  |  | **Notional** | |  |  |  |  |  |  |  |  |  |  | **Notional** | |  |  |  |  |  |  |  |  |
|  |  |  | **Amount** | |  | **Cost** | |  | **Fair** | |  | **Net Carrying** | |  | **Amount** | |  | **Cost** | |  | **Fair** | | **Net Carrying** | |
| **Maturity** |  |  | **Long (Short)** |  |  | **Basis** |  |  | **Value** |  |  | **Value 1** |  |  | **Long (Short)** |  |  | **Basis** |  |  | **Value** |  |  | **Value 1** |
| 10 years | | $ | (1,650) |  | $ | (2,074) |  | $ | (2,111) |  | $ | (37) |  | $ | (1,650) |  | $ | (1,969) |  | $ | (2,013) |  | $ | (44) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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1. Net carrying value represents the difference between the fair market value and the cost basis (or the forward price to be paid/(received) for the underlying U.S. Treasury security) of the U.S. Treasury futures contract as of period-end and is reported in derivative assets/(liabilities), at fair value in our consolidated balance sheets.

16

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | **June 30, 2019** | | |  |  |  |  |  |  |  |  |  | **December 31, 2018** | | | | |  |  |
|  |  |  | **Notional** | |  |  |  |  |  |  |  |  |  |  | **Notional** | |  |  |  |  |  |  |  |  |
|  |  |  | **Amount** | |  | **Cost** | |  | **Fair** | |  | **Net Carrying** | |  | **Amount** | |  | **Cost** | |  | **Fair** | | **Net Carrying** | |
| **TBA Securities by Coupon** |  |  | **Long (Short)** |  |  | **Basis** |  |  | **Value** |  |  | **Value 1** |  |  | **Long (Short)** |  |  | **Basis** |  |  | **Value** |  |  | **Value 1** |
| 15-Year TBA securities: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 3.0% |  | $ | 900 |  | $ | 911 |  | $ | 917 |  | $ | 6 |  | $ | 567 |  | $ | 557 |  | $ | 566 |  | $ | 9 |
| 3.5% |  |  | 1,837 |  |  | 1,883 |  |  | 1,896 |  |  | 13 |  |  | 1,706 |  |  | 1,708 |  |  | 1,726 |  |  | 18 |
| 4.0% |  |  | 375 |  |  | 387 |  |  | 389 |  |  | 2 |  |  | 1,350 |  |  | 1,370 |  |  | 1,381 |  |  | 11 |
| Total 15-Year TBA securities | |  | 3,112 |  |  | 3,181 |  |  | 3,202 |  |  | 21 |  |  | 3,623 |  |  | 3,635 |  |  | 3,673 |  |  | 38 |
| 30-Year TBA securities: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 3.0% |  |  | 7,353 |  |  | 7,399 |  |  | 7,411 |  |  | 12 |  |  | 1,028 |  |  | 981 |  |  | 1,003 |  |  | 22 |
| 3.5% |  |  | 4,064 |  |  | 4,100 |  |  | 4,154 |  |  | 54 |  |  | (2,979) |  |  | (2,943) |  |  | (2,977) |  |  | (34) |
| 4.0% |  |  | (4,048) |  |  | (4,183) |  |  | (4,184) |  |  | (1) |  |  | 3,030 |  |  | 3,073 |  |  | 3,089 |  |  | 16 |
| ≥ 4.5% | |  | 562 |  |  | 589 |  |  | 587 |  |  | (2) |  |  | 2,450 |  |  | 2,506 |  |  | 2,534 |  |  | 28 |
| Total 30-Year TBA securities, net | |  | 7,931 |  |  | 7,905 |  |  | 7,968 |  |  | 63 |  |  | 3,529 |  |  | 3,617 |  |  | 3,649 |  |  | 32 |
| Total TBA securities, net | | $ | 11,043 |  | $ | 11,086 |  | $ | 11,170 |  | $ | 84 |  | $ | 7,152 |  | $ | 7,252 |  | $ | 7,322 |  | $ | 70 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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1. Net carrying value represents the difference between the fair market value and the cost basis (or the forward price to be paid/(received) for the underlying Agency security) of the TBA contract as of period-end and is reported in derivative assets/(liabilities), at fair value in our consolidated balance sheets.

***Gain (Loss) From Derivative Instruments and Other Securities, Net***

The following table summarizes changes in our derivative and other hedge portfolio and their effect on our consolidated statements of comprehensive income for the three and six months ended June 30, 2019 and 2018 (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **Settlement,** | |  |  |  |  |  | **Gain/(Loss)** |  |
|  |  |  |  |  |  |  |  |  |  |  |  | **on Derivative** |  |
|  |  |  | **Beginning** | |  |  | **Termination,** | |  | **Ending** | | |  | **Instruments and** |  |
| **Derivative and Other Hedging Instruments** |  |  | **Additions** |  | **Expiration or** | |  | **Other Securities, Net** | |  |
| **Notional Amount** | |  | **Exercise** |  | **Notional Amount** | |  | |  | **1** |  |
| **Three months ended June 30, 2019:** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| TBA securities, net | | $ | 6,822 |  | 27,859 |  | (23,638) |  | $ | 11,043 |  |  | $ | 163 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest rate swaps | | $ | 48,175 |  | 65,000 |  | (38,225) |  | $ | 74,950 |  |  |  | (1,019) |  |
| Payer swaptions | | $ | 2,550 |  | 2,650 |  | (800) |  | $ | 4,400 |  |  |  | (25) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| U.S. Treasury securities - short position | | $ | (18,735) |  | (2,536) |  | 14,026 |  | $ | (7,245) |  |  |  | (505) |  |
| U.S. Treasury securities - long position | | $ | 120 |  | 1,018 |  | (4) |  | $ | 1,134 |  |  |  | 6 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| U.S. Treasury futures contracts - short position | | $ | (1,650) |  | (1,650) |  | 1,650 |  | $ | (1,650) |  |  |  | (57) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  | $ | (1,437) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Three months ended June 30, 2018:** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| TBA securities, net | | $ | 13,636 |  | 64,406 |  | (58,237) |  | $ | 19,805 |  |  | $ | (14) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest rate swaps | | $ | 45,250 |  | 4,500 |  | (1,875) |  | $ | 47,875 |  |  |  | 216 |  |
| Payer swaptions | | $ | 6,750 |  | — | | (1,150) |  | $ | 5,600 |  |  |  | 34 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| U.S. Treasury securities - short position | | $ | (10,798) |  | (5,629) |  | 3,033 |  | $ | (13,394) |  |  |  | 35 |  |
| U.S. Treasury securities - long position | | $ | 225 |  | 90 |  | (315) |  | $ | — | |  |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| U.S. Treasury futures contracts - short position | | $ | (2,380) |  | (1,650) |  | 2,380 |  | $ | (1,650) |  |  |  | 21 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  | $ | 292 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

17

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **Settlement,** | |  |  |  |  |  | **Gain/(Loss)** |  |
|  |  |  |  |  |  |  |  |  |  |  |  | **on Derivative** |  |
|  |  |  | **Beginning** | |  |  | **Termination,** | |  | **Ending** | | |  | **Instruments and** |  |
| **Derivative and Other Hedging Instruments** |  |  | **Additions** |  | **Expiration or** | |  | **Other Securities, Net** | |  |
| **Notional Amount** | |  | **Exercise** |  | **Notional Amount** | |  | |  | **1** |  |
| **Six months ended June 30, 2019:** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| TBA securities, net | | $ | 7,152 |  | 46,301 |  | (42,410) |  | $ | 11,043 |  |  | $ | 246 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest rate swaps | | $ | 51,625 |  | 70,350 |  | (47,025) |  | $ | 74,950 |  |  |  | (1,615) |  |
| Payer swaptions | | $ | 3,500 |  | 2,650 |  | (1,750) |  | $ | 4,400 |  |  |  | (52) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| U.S. Treasury securities - short position | | $ | (21,345) |  | (7,306) |  | 21,406 |  | $ | (7,245) |  |  |  | (930) |  |
| U.S. Treasury securities - long position | | $ | 45 |  | 1,423 |  | (334) |  | $ | 1,134 |  |  |  | 6 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| U.S. Treasury futures contracts - short position | | $ | (1,650) |  | (3,300) |  | 3,300 |  | $ | (1,650) |  |  |  | (88) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  | $ | (2,433) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Six months ended June 30, 2018:** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| TBA securities, net | | $ | 15,474 |  | 108,075 |  | (103,744) |  | $ | 19,805 |  |  | $ | (306) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest rate swaps | | $ | 43,700 |  | 7,650 |  | (3,475) |  | $ | 47,875 |  |  |  | 879 |  |
| Payer swaptions | | $ | 6,650 |  | 1,100 |  | (2,150) |  | $ | 5,600 |  |  |  | 125 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| U.S. Treasury securities - short position | | $ | (10,699) |  | (6,291) |  | 3,596 |  | $ | (13,394) |  |  |  | 247 |  |
| U.S. Treasury securities - long position | | $ | — | | 1,049 |  | (1,049) |  | $ | — | |  |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| U.S. Treasury futures contracts - short position | | $ | (2,910) |  | (4,559) |  | 5,819 |  | $ | (1,650) |  |  |  | 83 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  | $ | 1,028 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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1. Amounts exclude other miscellaneous gains and losses recognized in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income.

**Note 7. Pledged Assets**

Our funding agreements require us to fully collateralize our obligations under the agreements based upon our counterparties' collateral requirements and their 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. Our derivative contracts similarly require us to fully collateralize our obligations under such agreements, which will vary over time based on similar factors as well as our counterparties' determination of the value of the derivative contract. We are typically required to post initial margin upon execution of derivative transactions, such as under our interest rate swap agreements and TBA contracts, and subsequently post or receive variation margin based on daily fluctuations in fair value. Our brokerage and custody agreements and the clearing organizations utilized by our wholly-owned captive broker-dealer subsidiary, Bethesda Securities, LLC, also require that we post minimum daily clearing deposits. If we breach our collateral requirements, we will be required to fully settle our obligations under the agreements, which could include a forced liquidation of our pledged collateral.

Our counterparties also apply a "haircut" to our pledged collateral, which means our collateral is valued at slightly less than market value and limits the amount we can borrow against our securities. This haircut reflects the underlying risk of the specific collateral and protects our counterparty against a change in its value. Our agreements do not specify the haircut; rather haircuts are determined on an individual transaction basis. Consequently, our funding agreements and derivative contracts expose us to credit risk relating to potential losses that could be recognized if our counterparties fail to perform their obligations under such agreements. We minimize this risk by limiting our counterparties to major financial institutions with acceptable credit ratings or to registered clearinghouses and U.S. government agencies, and we monitor our positions with individual counterparties. In the event of a default by a counterparty, we may have difficulty obtaining our assets pledged as collateral to such counterparty and may not receive payments as and when due to us under the terms of our derivative agreements. In the case of centrally cleared instruments, we could be exposed to credit risk if the central clearing agency or a clearing member defaults on its respective obligation to perform under the contract. However, we believe that the risk is minimal due to the clearing exchanges' initial and daily mark-to-market margin requirements, clearinghouse guarantee funds and other resources that are available in the event of a clearing member default.

As of June 30, 2019, our maximum amount at risk with any counterparty related to our repurchase agreements, excluding the Fixed Income Clearing Corporation, was less than 4% of our tangible stockholders' equity (measured as the excess of the value of collateral pledged over the amount of our repurchase liabilities). As of June 30, 2019, approximately 9% of our tangible stockholder's equity was at risk with the Fixed Income Clearing Corporation.

18

***Assets Pledged to Counterparties***

The following tables summarize our assets pledged as collateral under our funding, derivative and brokerage and clearing agreements by type, including securities pledged related to securities sold but not yet settled, as of June 30, 2019 and December 31, 2018 (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **June 30, 2019** | | | | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  | **Brokerage and** | |  |  |  |
| **Assets Pledged to Counterparties 1** |  | **Repurchase Agreements** | | | **Debt of Consolidated** | |  |  |  | **Derivative** | |  | **Clearing** | |  | **Total** |  |
|  | **2** |  |  | **VIEs** |  |  |  | **Agreements** |  |  | **Agreements 3** |  |  |  |
| Agency RMBS - fair value | | $ | 88,061 |  | $ | 411 | $ | | | 187 |  | $ | 168 |  | $ | 88,827 |  |
| CRT - fair value | |  | 269 |  |  | — |  |  |  | — | |  | — | |  | 269 |  |
| Non-Agency - fair value | |  | — | |  | — |  |  |  | — | |  | — | |  | — |  |
| U.S. Treasury securities - fair value | |  | 1,423 |  |  | — |  |  |  | — | |  | — | |  | 1,423 |  |
| Accrued interest on pledged securities | |  | 270 |  |  | 1 |  |  |  | 1 |  |  | 1 |  |  | 273 |  |
| Restricted cash and cash equivalents | |  | 144 |  |  | — |  |  |  | 645 |  |  | — |  |  | 789 |  |
| Total | | $ | 90,167 |  | $ | 412 | $ | | | 833 |  | $ | 169 |  | $ | 91,581 |  |
|  |  |  |  |  |  |  | |  |  | |  |  |  |  |  |  |  |
|  |  |  |  |  |  | **December 31, 2018** | | | | | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  | **Brokerage and** | |  |  |  |
| **Assets Pledged to Counterparties 1** |  | **Repurchase Agreements** | | | **Debt of Consolidated** | |  |  |  | **Derivative** | |  | **Clearing** | |  | **Total** |  |
|  | **2** |  |  | **VIEs** |  |  |  | **Agreements** |  |  | **Agreements 3** |  |  |  |
| Agency RMBS - fair value | | $ | 78,997 |  | $ | 436 | $ | | | 174 |  | $ | 133 |  | $ | 79,740 |  |
| CRT - fair value | |  | 141 |  |  | — |  |  |  | — | |  | — | |  | 141 |  |
| Non-Agency - fair value | |  | 45 |  |  | — |  |  |  | — | |  | — | |  | 45 |  |
| U.S. Treasury securities - fair value | |  | 437 |  |  | — |  |  |  | — | |  | — | |  | 437 |  |
| Accrued interest on pledged securities | |  | 246 |  |  | 1 |  |  |  | 1 |  |  | — | |  | 248 |  |
| Restricted cash and cash equivalents | |  | 77 |  |  | — |  |  |  | 522 |  |  | — |  |  | 599 |  |
| Total | | $ | 79,943 |  | $ | 437 | $ | | | 697 |  | $ | 133 |  | $ | 81,210 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Includes repledged assets received as collateral from counterparties.
2. Includes $161 million and $163 million of retained interests in our consolidated VIEs pledged as collateral under repurchase agreements as of June 30, 2019 and December 31, 2018, respectively.
3. Includes margin for TBAs cleared through prime brokers and other clearing deposits.

Securities transferred to our consolidated VIEs can only be used to settle the obligations of each respective VIE. However, we may pledge our retained interests in our consolidated VIEs as collateral under our repurchase agreements and derivative contracts. Please refer to Note 4 for additional information regarding our consolidated VIEs.

The following table summarizes our securities pledged as collateral under our repurchase agreements by the remaining maturity of our borrowings, including securities pledged related to sold but not yet settled securities, as of June 30, 2019 and December 31, 2018 (in millions). For the corresponding borrowings associated with the following amounts and the interest rates thereon, refer to Note 5*.*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **June 30, 2019** | | |  |  |  |  |  | **December 31, 2018** | | | | |  |  |  |
|  |  |  |  |  |  | **Amortized** | |  | **Accrued** | |  |  |  |  |  | **Amortized** | |  | **Accrued** |  |
| **Securities Pledged by Remaining Maturity of Repurchase** | |  | **Fair Value of** | |  |  | **Interest on** | |  | **Fair Value of** |  |  |  |  | **Interest on** |  |
|  |  | **Cost of Pledged** | |  | **Pledged** | |  |  |  | **Cost of Pledged** | | |  | **Pledged** |  |
| **Agreements 1,2** |  | **Pledged Securities** | |  |  | **Securities** |  |  | **Securities** |  | **Pledged Securities** | |  |  |  | **Securities** |  |  | **Securities** |  |
| ≤ 30 days | | $ | 49,773 |  | $ | 48,968 |  | $ | 150 |  | $ | 49,944 | $ | | | 50,654 |  | $ | 156 |  |
| > 30 and ≤ 60 days | |  | 10,881 |  |  | 10,735 |  |  | 33 |  |  | 14,586 |  |  |  | 14,810 |  |  | 46 |  |
| > 60 and ≤ 90 days | |  | 8,433 |  |  | 8,313 |  |  | 26 |  |  | 7,770 |  |  |  | 7,843 |  |  | 24 |  |
| > 90 days | |  | 20,395 |  |  | 20,197 |  |  | 61 |  |  | 6,882 |  |  |  | 7,079 |  |  | 21 |  |
| Total | | $ | 89,482 |  | $ | 88,213 |  | $ | 270 |  | $ | 79,182 | $ | | | 80,386 |  | $ | 247 |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

19

1. Includes $161 million and $163 million of retained interests in our consolidated VIEs pledged as collateral under repurchase agreements as of June 30, 2019 and December 31, 2018, respectively.
2. Excludes $271 million and $437 million of repledged U.S. Treasury securities received as collateral from counterparties as of June 30, 2019 and December 31, 2018, respectively.

***Assets Pledged from Counterparties***

As of June 30, 2019 and December 31, 2018, we had assets pledged to us from counterparties as collateral under our reverse repurchase and derivative agreements summarized in the tables below (in millions).

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | **June 30, 2019** | | | |  |  |  |  |  |  |  | **December 31, 2018** | | | |  |  |  |
|  |  |  | **Reverse** | |  | **Derivative** | |  | **Repurchase** |  |  |  |  | **Reverse** | |  | **Derivative** | |  | **Repurchase** |  |  |  |
| **Assets Pledged to AGNC 1** |  |  | **Repurchase** | |  |  |  | **Total** |  |  | **Repurchase** | |  |  |  | **Total** |  |
|  | **Agreements** |  |  | **Agreements** |  |  | **Agreements** |  |  | **Agreements** |  |  | **Agreements** | |  | **Agreements** |  |  |
| U.S. Treasury securities - fair value | | $ | 8,847 |  | $ | — | | $ | 11 | $ | 8,858 |  | $ | 21,876 |  | $ | 35 |  | $ | 37 | $ | 21,948 |  |
| Cash | |  | — | |  | 18 |  |  | 11 |  | 29 |  |  | — | |  | 129 |  |  | — |  | 129 |  |
| Total | | $ | 8,847 |  | $ | 18 |  | $ | 22 | $ | 8,887 |  | $ | 21,876 |  | $ | 164 |  | $ | 37 | $ | 22,077 |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. Includes $271 million and $437 million of repledged U.S. Treasury securities received as collateral from counterparties as of June 30, 2019 and December 31, 2018, respectively.

U.S Treasury securities received as collateral under our reverse repurchase agreements for which we use to cover short sales of U.S. Treasury securities are accounted for as securities borrowing transactions. We recognize a corresponding obligation to return the borrowed securities at fair value on the accompanying consolidated balance sheets based on the value of the underlying borrowed securities as of the reporting date.

Cash collateral received is recognized in cash and cash equivalents with a corresponding amount recognized in accounts payable and other accrued liabilities on the accompanying consolidated balance sheets.

***Offsetting Assets and Liabilities***

Certain of our repurchase agreements and derivative transactions are governed by underlying agreements that generally provide for a right of setoff under master netting arrangements (or similar agreements), including in the event of default or in the event of bankruptcy of either party to the transactions. We present our assets and liabilities subject to such arrangements on a gross basis in our consolidated balance sheets. The following tables present information about our assets and liabilities that are subject to master netting arrangements and can potentially be offset on our consolidated balance sheets as of June 30, 2019 and December 31, 2018 (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **Offsetting of Financial and Derivative Assets** | | | | | | | | |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  | **Net Amounts of** | | |  | **Gross Amounts Not Offset** | | | | |  |  |  |
|  |  |  |  |  |  |  |  |  |  | **in the** | | |  |  |  |  |  |
|  |  |  |  |  |  | **Gross Amounts** |  |  | **Assets Presented** | | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  | **Consolidated Balance Sheets** | | | |  |  |  |  |
|  |  | **Gross Amounts** | | |  | **Offset in the** |  |  |  | **in the** | |  |  |  |  |
|  |  |  | **of Recognized** | |  | **Consolidated** |  |  |  | **Consolidated** | |  | **Financial** | |  | **Collateral** | |  | **Net Amount** |  |
|  |  |  | **Assets** |  |  | **Balance Sheets** |  |  |  | **Balance Sheets** |  |  | **Instruments** |  |  | **Received 2** |  |  |  |
| **June 30, 2019** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest rate swap and swaption agreements, at fair value 1 | | $ | 25 |  | $ | — | $ | | | 25 |  | $ | (4) |  | $ | (18) |  | $ | 3 |  |
| TBA securities, at fair value | |  | 91 |  |  | — |  |  |  | 91 |  |  | (7) |  |  | — | |  | 84 |  |
| Receivable under reverse repurchase agreements | |  | 8,848 |  |  | — |  |  |  | 8,848 |  |  | (8,319) |  |  | (527) |  |  | 2 |  |
| Total | | $ | 8,964 |  | $ | — | $ | | | 8,964 |  | $ | (8,330) |  | $ | (545) |  | $ | 89 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **December 31, 2018** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest rate swap and swaption agreements, at fair value 1 | | $ | 163 |  | $ | — | $ | | | 163 |  | $ | — | | $ | (158) |  | $ | 5 |  |
| TBA securities, at fair value | |  | 110 |  |  | — |  |  |  | 110 |  |  | (40) |  |  | — | |  | 70 |  |
| Receivable under reverse repurchase agreements | |  | 21,813 |  |  | — |  |  |  | 21,813 |  |  | (17,236) |  |  | (4,575) |  |  | 2 |  |
| Total | | $ | 22,086 |  | $ | — | $ | | | 22,086 |  | $ | (17,276) |  | $ | (4,733) |  | $ | 77 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

20

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | **Offsetting of Financial and Derivative Liabilities** | | | | | | | | |  |  |  |  |  |
|  |  |  |  |  |  |  |  | **Net Amounts of** | | |  | **Gross Amounts Not Offset** | | | | |  |  |  |
|  |  |  |  |  |  |  |  |  | **in the** | | |  |  |  |  |  |
|  |  |  |  |  |  | **Gross Amounts** | |  | **Liabilities** | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  | **Consolidated Balance Sheets** | | | |  |  |  |  |
|  |  | **Gross Amounts** | | |  | **Offset in the** | | **Presented in the** | | |  |  |  |  |
|  |  |  | **of Recognized** | |  | **Consolidated** | |  | **Consolidated** | |  | **Financial** | |  | **Collateral** | |  | **Net Amount** |  |
|  |  |  | **Liabilities** |  |  | **Balance Sheets** |  |  | **Balance Sheets** |  |  | **Instruments** |  |  | **Pledged 2** |  |  |  |
| **June 30, 2019** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest rate swap agreements, at fair value 1 | | $ | 19 |  | $ | — | | $ | 19 |  | $ | (4) |  | $ | (15) |  | $ | — |  |
| TBA securities, at fair value | |  | 7 |  |  | — | |  | 7 |  |  | (7) |  |  | — | |  | — |  |
| Repurchase agreements | |  | 86,266 |  |  | — |  |  | 86,266 |  |  | (8,319) |  |  | (77,947) |  |  | — |  |
| Total | | $ | 86,292 |  | $ | — | | $ | 86,292 |  | $ | (8,330) |  | $ | (77,962) |  | $ | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **December 31, 2018** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest rate swap agreements, at fair value 1 | | $ | — | | $ | — | | $ | — | | $ | — | | $ | — | | $ | — |  |
| TBA securities, at fair value | |  | 40 |  |  | — | |  | 40 |  |  | (40) |  |  | — | |  | — |  |
| Repurchase agreements | |  | 75,717 |  |  | — |  |  | 75,717 |  |  | (17,236) |  |  | (58,481) |  |  | — |  |
| Total | | $ | 75,757 |  | $ | — | | $ | 75,757 |  | $ | (17,276) |  | $ | (58,481) |  | $ | — |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. Reported under derivative assets / liabilities, at fair value in the accompanying consolidated balance sheets. Refer to Note 6 for a reconciliation of derivative assets / liabilities, at fair value to their sub-components.
2. Includes cash and securities pledged / received as collateral, at fair value. Amounts include repledged collateral. Amounts presented are limited to collateral pledged sufficient to reduce the net amount to zero for individual counterparties, as applicable.

**Note 8. Fair Value Measurements**

We determine the fair value of our financial instruments based on our estimate of the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. We typically obtain price estimates from multiple third-party pricing services and dealers or, if applicable, the clearing exchange (see Note 3 for further details.) We utilize a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels of valuation hierarchy are defined as follows:

* Level 1 Inputs —Quoted prices (unadjusted) for identical unrestricted assets and liabilities in active markets that are accessible at the measurement date.
* Level 2 Inputs —Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
* Level 3 Inputs —Instruments with primarily unobservable market data that cannot be corroborated.

The availability of observable inputs can vary by instrument and is affected by a wide variety of factors, including the type of instrument, whether the instrument is new and not yet established in the marketplace and other characteristics particular to the instrument. Third-party pricing sources may also use certain unobservable inputs, such as assumptions of future levels of prepayment, defaults and loss severities, especially when estimating fair values for securities with lower levels of recent trading activity.

We make inquiries of third-party pricing sources to understand the significant inputs and assumptions they used to determine their prices. We also review third-party price estimates and perform procedures to validate their reasonableness, including an analysis of the range of estimates for each position, comparison to recent trade activity for similar securities, and for consistency with market conditions observed as of the measurement date. While we do not adjust prices we obtain from pricing sources, we will exclude prices for securities from our estimation of fair value if we determine (based on our validation procedures and our market knowledge and expertise) that the price is significantly different from what observable market data would indicate and we cannot obtain an understanding from the third-party source as to the significant inputs used to determine the price.

The validation procedures described above also influence our determination of the appropriate fair value measurement categorization. The following table provides a summary of our assets and liabilities that are measured at fair value on a recurring

21

basis as of June 30, 2019 and December 31, 2018 based on their categorization within the valuation hierarchy (in millions). There were no transfers between valuation hierarchy levels during the periods presented.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **June 30, 2019** | |  |  |  |  |  | **December 31, 2018** | | | |  |  |
|  |  | **Level 1** | |  | **Level 2** | |  | **Level 3** | |  | **Level 1** |  |  | **Level 2** | |  | **Level 3** |
| Assets: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Agency securities | $ | — | | $ | 91,140 |  | $ | — | | $ | — | $ | | 82,291 |  | $ | — |
| Agency securities transferred to consolidated VIEs |  | — | |  | 411 |  |  | — | |  | — |  |  | 436 |  |  | — |
| Credit risk transfer securities |  | — | |  | 1,117 |  |  | — | |  | — |  |  | 1,012 |  |  | — |
| Non-Agency securities |  | — | |  | 603 |  |  | — | |  | — |  |  | 548 |  |  | — |
| U.S. Treasury securities |  | 1,152 |  |  | — | |  | — | |  | 46 |  |  | — | |  | — |
| Interest rate swaps |  | — | |  | 3 |  |  | — | |  | — |  |  | 126 |  |  | — |
| Swaptions |  | — | |  | 22 |  |  | — | |  | — |  |  | 37 |  |  | — |
| TBA securities |  | — |  |  | 91 |  |  | — |  |  | — |  |  | 110 |  |  | — |
| Total | $ | 1,152 |  | $ | 93,387 |  | $ | — | | $ | 46 | $ | | 84,560 |  | $ | — |
| Liabilities: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Debt of consolidated VIEs | $ | — | | $ | 251 |  | $ | — | | $ | — | $ | | 275 |  | $ | — |
| Obligation to return U.S. Treasury securities borrowed under reverse |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| repurchase agreements |  | 7,754 |  |  | — | |  | — | |  | 21,431 |  |  | — | |  | — |
| Interest rate swaps |  | — | |  | 19 |  |  | — | |  | — |  |  | — | |  | — |
| TBA securities |  | — | |  | 7 |  |  | — | |  | — |  |  | 40 |  |  | — |
| U.S. Treasury futures |  | 37 |  |  | — |  |  | — |  |  | 44 |  |  | — |  |  | — |
| Total | $ | 7,791 |  | $ | 277 |  | $ | — | | $ | 21,475 | $ | | 315 |  | $ | — |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

Excluded from the table above are financial instruments, including cash and cash equivalents, restricted cash and cash equivalents, receivables, payables and borrowings under repurchase agreements, which are presented in our consolidated financial statements at cost. The cost basis of these instruments is determined to approximate fair value due to their short duration or, in the case of longer-term repo, due to floating rates of interest corresponding on an index plus or minus a fixed spread which is consistent with fixed spreads demanded in the market. We estimate the fair value of these instruments using "Level 1" or "Level 2" inputs.

**Note 9. Net Income (Loss) Per Common Share**

Basic net income (loss) per common share is computed by dividing net income (loss) available (attributable) to common stockholders by the weighted-average number of common shares outstanding and the weighted-average number of vested but not yet issued restricted stock units and performance share units outstanding for the respective period. Diluted earnings per common share includes the impact of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares outstanding include unvested restricted stock units and performance based restricted stock units granted under our long-term incentive program to employees and non-employee Board of Directors. The following table presents the computations of basic and diluted net income per common share for the periods indicated (shares and dollars in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30,** | | | | | |  | **Six Months Ended June 30,** | | | |
|  |  | **2019** |  |  | **2018** |  |  | **2019** |  |  | **2018** |
| Weighted average number of common shares issued and outstanding |  | 537.4 |  |  | 404.8 |  |  | 536.9 |  |  | 398.1 |
| Weighted average number of fully vested restricted stock units and performance based restricted stock |  |  |  |  |  |  |  |  |  |  |  |
| units outstanding |  | 0.4 |  |  | 0.1 |  |  | 0.3 |  |  | 0.1 |
| Weighted average number of common shares outstanding - basic |  | 537.8 |  |  | 404.9 |  |  | 537.2 |  |  | 398.2 |
| Weighted average number of dilutive unvested restricted stock units and performance based restricted |  |  |  |  |  |  |  |  |  |  |  |
| stock units outstanding |  | — | |  | 0.3 |  |  | — | |  | 0.2 |
| Weighted average number of common shares outstanding - diluted |  | 537.8 |  |  | 405.2 |  |  | 537.2 |  |  | 398.4 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Net income (loss) available (attributable) to common stockholders | $ | (457) |  | $ | 284 |  | $ | (202) |  | $ | 699 |
| Net income (loss) per common share - basic | $ | (0.85) |  | $ | 0.70 |  | $ | (0.38) |  | $ | 1.76 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Net income (loss) per common share - diluted | $ | (0.85) |  | $ | 0.70 |  | $ | (0.38) |  | $ | 1.75 |
|  |  |  |  |  |  |  |  |  |  |  |  |

22

For the three and six months ended June 30, 2019, 0.6 million of potentially dilutive unvested restricted stock units and performance based restricted stock units outstanding were excluded from the computation of diluted net income (loss) per common share because to do so would have been anti-dilutive for such periods.

**Note 10. Stockholders' Equity**

***Preferred Stock***

We are authorized to designate and issue up to 10.0 million shares of preferred stock in one or more classes or series. As of June 30, 2019 and December 31, 2018, 8,050 shares were designated as 7.750% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock") and 13,800 shares were designated as 7.00% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock ("Series C Preferred Stock"). During March 2019, we designated an additional 9,400 shares as 6.875% Series D Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock ("Series D Preferred Stock"). Each share of Series B, C, and D Preferred Stock is represented by 1,000 depositary shares.

Our preferred stock ranks senior to our 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. Our preferred stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and ranks on parity with each other. Under certain circumstances upon a change of control, our preferred stock is convertible to shares of our common stock. Holders of our preferred stock and depositary shares underlying our preferred stock have no voting rights, except under limited conditions. Beginning on each series' optional redemption date, such shares will be redeemable at $25.00 per depositary share, plus accumulated and unpaid dividends (whether or not declared), exclusively at our option.

The following is a summary of our preferred stock issued and outstanding as of June 30, 2019 (dollars and shares in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Depositary** | |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  | **Shares** | |  |  |  |  |  |  |  |  |  | **Fixed-to-Floating** | |  |  |
|  |  |  |  | **Issued** | |  |  |  |  | **Aggregate** |  |  | **Optional** | | **Rate** | |  |  |
|  |  | **Issuance** | | **and** | |  | **Carrying** | |  | **Liquidation** | **Fixed** | | **Redemption** | | **Conversion** | | **Floating** |  |
| **Preferred Stock** |  | **Date** |  | **Outstanding** |  |  | **Value** |  |  | **Preference** | **Rate** |  | **Date 2** |  | **Date** |  | **Annual Rate** |  |
| **Fixed Rate** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Series B | | May 8, 2014 | | 7.0 |  | $ | 169 |  | $ | 175 | 7.750% |  | May 8, 2019 | | N/A | | N/A |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Fixed-to-Floating Rate 1** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Series C | | August 22, 2017 | | 13.0 |  |  | 315 |  |  | 325 | 7.000% |  | October 15, 2022 | | October 15, 2022 | | 3M LIBOR + |  |
|  |  |  |  |  | 5.111% |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Series D | | March 6, 2019 | | 9.4 |  |  | 227 |  |  | 235 | 6.875% |  | April 15, 2024 | | April 15, 2024 | | 3M LIBOR + |  |
|  |  |  |  |  | 4.332% |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total | |  |  | 29.4 |  | $ | 711 |  | $ | 735 |  |  |  |  |  |  |  |  |



\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Fixed-to-floating rate redeemable preferred stock accrue dividends at an annual fixed rate of the $25.00 liquidation preference per depositary share from the issuance date up to, but not including, the fixed-to-floating rate conversion date; thereafter, dividends will accrue on a floating rate basis equal to 3-month LIBOR plus a fixed spread.
2. Shares may be redeemed prior to our optional redemption date under certain circumstances intended to preserve our qualification as a REIT for U.S federal income tax purposes.

***Common Stock Offering***

In May 2018, we completed a public offering in which 34.5 million shares of our common stock were sold to the underwriters for proceeds of $633 million, or $18.35 per common share, net of offering costs.

***At-the-Market Offering Program***

We are authorized by our Board of Directors to enter into agreements with sales agents to publicly offer and sell shares of our common stock in privately negotiated and/or at-the-market transactions from time-to-time up to a maximum aggregate offering price of our common stock through June 14, 2021. During the three and six months ended June 30, 2019, we sold 11.4 million shares of our common stock under the sales agreements for proceeds of $190 million, or $16.67 per common share, net of offering costs. During the three and six months ended June 30, 2018, we sold 8.3 million shares of our common stock under the sales agreements for proceeds of $155 million, or $18.73 per common share, net of offering costs. As of June 30, 2019, shares of our common stock with an aggregate offering price of $466 million remained authorized for issuance under this program.

23

***Accumulated Other Comprehensive Income (Loss)***

The following table summarizes changes to accumulated OCI for the three and six months ended June 30, 2019 and 2018 (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Three Months Ended June** | | | | | |  | **Six Months Ended June 30,** | | | |  |
|  |  |  |  | **30,** | | |  |  |  |  |
| **Accumulated Other Comprehensive Income (Loss)** |  |  | **2019** |  |  |  | **2018** |  |  | **2019** |  |  | **2018** |  |
| **Beginning Balance** | | $ | (543) | $ | | | (966) |  | $ | (943) |  | $ | (345) |  |
| OCI before reclassifications | |  | 374 |  |  |  | (165) |  |  | 770 |  |  | (785) |  |
| (Gain) loss amounts for available-for-sale securities reclassified from accumulated OCI to | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| realized gain (loss) on sale of investment securities | |  | 5 |  |  |  | 20 |  |  | 9 |  |  | 19 |  |
| **Ending Balance** | | $ | (164) | $ | | | (1,111) |  | $ | (164) |  | $ | (1,111) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**Note 11. Subsequent Events**

***Common Stock Dividend Declaration***

On July 11, 2019, our Board of Directors declared a monthly dividend of $0.16 per common share payable on August 9, 2019 to common stockholders of record as of July 31, 2019.

***Common Stock Repurchase Program***

In July 2019, our Board of Directors authorized the repurchase of up to $1 billion of the outstanding shares of our common stock through December 31, 2020. We may repurchase shares in the open market or through privately negotiated transactions or pursuant to a trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities and Exchange Act of 1934, as amended. We intend to repurchase shares under the stock repurchase program only when the repurchase price is less than our then-current estimate of our tangible net book value per common share.

24

**Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations***

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide a reader of AGNC Investment Corp.'s consolidated financial statements with a narrative from the perspective of management and should be read in conjunction with the consolidated financial statements and accompanying notes included in this Quarterly Report on Form 10-Q for quarterly period ended June 30, 2019. Our MD&A is presented in six sections:

* Executive Overview
* Financial Condition
* Results of Operations
* Liquidity and Capital Resources
* Off-Balance Sheet Arrangements
* Forward-Looking Statements

**EXECUTIVE OVERVIEW**

We are an internally-managed Real Estate Investment Trust ("REIT"). We commenced operations on May 20, 2008 following the completion of our initial public offering. Our common stock is traded on The Nasdaq Global Select Market under the symbol "AGNC."

As a REIT, we are required to distribute annually 90% of our taxable income. As a REIT, we will generally not be subject to U.S. federal or state corporate taxes on our taxable income to the extent that we distribute all our annual taxable income to our stockholders on a timely basis. It is our intention to distribute 100% of our taxable income within the time limits prescribed by the Internal Revenue Code, which may extend into the subsequent taxable year.

We invest primarily in Agency residential mortgage-backed securities ("Agency RMBS") on a leveraged basis. These investments consist of residential mortgage pass-through securities and collateralized mortgage obligations for which the principal and interest payments are guaranteed by a U.S. Government-sponsored enterprise, such as Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac," and together with Fannie Mae, the "GSEs"), or by a U.S. Government agency, such as Government National Mortgage Association ("Ginnie Mae"). We also invest in other types of mortgage and mortgage-related residential and commercial mortgage-backed securities where repayment of principal and interest is not guaranteed by a GSE or U.S. Government agency and in other investments in, or related to, the housing, mortgage or real estate markets.

Our principal objective is to provide our stockholders with attractive risk-adjusted returns through a combination of monthly dividends and tangible net book value accretion. We generate income from the interest earned on our investments, net of associated borrowing and hedging costs, and net realized gains and losses on our investment and hedging activities. We fund our investments primarily through borrowings structured as repurchase agreements.

The size and composition of our investment portfolio depends on the investment strategies we implement, availability of attractively priced investments, suitable financing to appropriately leverage our investment portfolio and overall market conditions. Market conditions are influenced by a variety of factors, including interest rates, prepayment expectations, liquidity, housing prices, unemployment rates, general economic conditions, government participation in the mortgage market, regulations and relative returns on other assets.

**Trends and Recent Market Impacts**

During the first half of 2019, weaker global economic growth, ongoing trade uncertainty, and benign inflation indicators led to a sharp decline in U.S. Treasury and swap rates as many major central banks signaled the possibility of short-term rate cuts and other forms of monetary policy accommodation. Consistent with this global theme, the U.S. Federal Reserve (the "Fed") pivoted sharply from its campaign of raising short-term interest rates, most recently in December 2018, and indicated the potential for rate cuts in 2019. On July 31, 2019, the Fed affirmed market expectations and cut its benchmark short-term interest rate by a quarter-percentage point, the first reduction since 2008. The Fed also announced that it would suspend the runoff of its U.S. Treasury portfolio and redeploy paydowns from its Agency RMBS portfolio into treasury securities beginning in August 2019, thus maintaining a larger balance sheet than the market previously expected.

U.S. equities and other risk assets performed well during the first half of the year as the expectations of greater central bank accommodation outweighed concerns over global economic weakness. The performance of Agency RMBS, however, was mixed during the first half of the year. They outperformed U.S. Treasury and interest rate swap hedges in the first quarter but underperformed in the second quarter due to elevated prepayment concerns and an inversion of the front end of the yield curve.

25

The performance of Agency RMBS relative to our hedges drove the changes in our tangible net book value per common share of +4.0% and -3.8% for the first and second quarters, respectively. Combined with the dividends declared per common share, our economic return on tangible common equity was +7.3% and -0.9% for the first and second quarters, respectively.

Our net spread and dollar roll income was $0.52 and $0.49 per common share for the first and second quarters of 2019, respectively, excluding "catch-up" premium amortization cost associated with changes in projected CPR estimates. The sequential quarterly declines of $0.01 and $0.03 per common share in our net spread and dollar roll income were due in large part to greater premium amortization expense stemming from lower rates and correspondingly faster prepayment expectations, as well as elevated funding costs, particularly relative to our swap hedges. Our net interest spread, which represents the difference in yield on our assets (excluding “catch-up” amortization and including TBA securities) and our cost of funds, was 1.06% and 1.00%, for the first and second quarters, respectively. Our tangible net book value "at risk" leverage increased to 9.4x and 9.8x as of March 31 and June 30, 2019, respectively, from 9.0x as of December 31, 2018.

Forecasted lifetime CPRs increased during the first half of the year, to 12.4% as of June 30, 2019 from 7.9% as of December 31, 2018, primarily resulting from the decline in interest rates. Our actual CPRs increased by a lesser degree, to an average of 10.0% for the second quarter, which, due to the favorable prepayment characteristics of the majority of our holdings, was well below prepayment speeds observed on generic, higher coupon Agency RMBS. In the current faster prepayment environment, we believe asset selection will be an important driver of overall performance. Consequently, for investments in coupons most exposed to prepayment risk, our holdings, as of June 30, 2019, reflect a larger concentration of specified pools, which we believe have a lower likelihood of prepayment than more generic Agency pools, and our TBA holdings primarily consist of lower coupon pools less susceptible to prepayment risk.

The funding costs associated with our repurchase agreements were largely unchanged over the first half of 2019, averaging 2.64% and 2.62% for the first and second quarters, respectively, despite significant declines in 3-month LIBOR and other short-term benchmark rates over the same period, which repriced to reflect the shift in the Fed’s stance toward greater monetary policy accommodation. Our total cost of funds, which includes the cost of repurchase agreements, the implied funding costs of TBA securities and periodic interest settlements associated with our interest rate swap hedges, was 2.27% and 2.24% for the first and second quarters, respectively.

During the first quarter, we reduced our interest rate hedge portfolio to 77% of our funding liabilities as of March 31, 2019, from 94% as December 31, 2018 in response to the sharp decline in interest rates. Following a material repricing in the swap market late in the second quarter, we significantly altered the size and composition of our hedge portfolio to effectively lock-in more attractive funding levels. During the second quarter, we increased our swap portfolio by $26.8 billion through the addition of shorter-term swaps and reduced our U.S. Treasury hedges by $12.5 billion. The aggregate duration of our assets declined to less than three years as of June 30, 2019, and, as a result, we also added incremental option protection against extension risk in the form of payer swaptions. In aggregate, our interest rate hedge portfolio was 91% of our funding liabilities as of June 30, 2019. Given the changes that we made to our hedge portfolio, our duration gap, which is a measure of risk from mismatches between the interest sensitivity of our assets and liabilities, remained relatively stable at 0.2 years and -0.1 years for the first and second quarters of 2019, respectively, despite the significant rally in interest rates and corresponding reduction in our asset duration. For additional information regarding our interest rate and spread sensitivity please refer to Item 3. *Quantitative and Qualitative* *Disclosures about Market Risk* of this Form 10-Q.

26

***Market Information***

The following table summarizes interest rates and prices of generic fixed rate Agency RMBS as of each date presented below:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **June 30,** | | **Sept. 30,** | | **Dec. 31,** | | **Mar. 31,** | | **June 30,** | | **June 30, 2019** | | **June 30, 2019** |  |
| **Interest Rate/Security Price 1** |  | **vs** | | **vs** |  |
| **2018** |  | **2018** |  | **2018** |  | **2019** |  | **2019** |  | **Mar. 31, 2019** |  | **Dec. 31, 2018** |  |
| **LIBOR:** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 1-Month | | 2.09% |  | 2.26% |  | 2.50% |  | 2.49% |  | 2.40% |  | -0.09 bps | | -0.10 bps |  |
| 3-Month | | 2.34% |  | 2.40% |  | 2.81% |  | 2.60% |  | 2.32% |  | -0.28 bps | | -0.49 bps |  |
| **U.S. Treasury Security Rate:** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2-Year U.S. Treasury | | 2.53% |  | 2.82% |  | 2.49% |  | 2.26% |  | 1.75% |  | -0.51 bps | | -0.74 bps |  |
| 5-Year U.S. Treasury | | 2.74% |  | 2.95% |  | 2.51% |  | 2.23% |  | 1.77% |  | -0.46 bps | | -0.74 bps |  |
| 10-Year U.S. Treasury | | 2.86% |  | 3.06% |  | 2.68% |  | 2.41% |  | 2.01% |  | -0.40 bps | | -0.67 bps |  |
| 30-Year U.S. Treasury | | 2.99% |  | 3.21% |  | 3.01% |  | 2.81% |  | 2.53% |  | -0.28 bps | | -0.48 bps |  |
| **Interest Rate Swap Rate:** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2-Year Swap | | 2.79% |  | 2.99% |  | 2.66% |  | 2.38% |  | 1.81% |  | -0.57 bps | | -0.85 bps |  |
| 5-Year Swap | | 2.89% |  | 3.07% |  | 2.57% |  | 2.28% |  | 1.77% |  | -0.51 bps | | -0.80 bps |  |
| 10-Year Swap | | 2.93% |  | 3.12% |  | 2.71% |  | 2.41% |  | 1.96% |  | -0.45 bps | | -0.75 bps |  |
| 30-Year Swap | | 2.93% |  | 3.13% |  | 2.84% |  | 2.58% |  | 2.21% |  | -0.37 bps | | -0.63 bps |  |
| **30-Year Fixed Rate Agency Price:** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 3.0% |  | $96.86 |  | $95.67 |  | $97.54 |  | $99.55 |  | $100.84 |  | +$1.29 |  | +$3.30 |  |
| 3.5% |  | $99.52 |  | $98.41 |  | $99.95 |  | $101.35 |  | $102.24 |  | +$0.89 |  | +$2.29 |  |
| 4.0% |  | $101.96 |  | $100.97 |  | $101.94 |  | $102.86 |  | $103.36 |  | +$0.50 |  | +$1.42 |  |
| 4.5% |  | $104.13 |  | $103.16 |  | $103.53 |  | $104.20 |  | $104.49 |  | +$0.29 |  | +$0.96 |  |
| **15-Year Fixed Rate Agency Price:** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2.5% |  | $97.22 |  | $96.47 |  | $97.70 |  | $99.39 |  | $100.67 |  | +$1.28 |  | +$2.97 |  |
| 3.0% |  | $99.41 |  | $98.77 |  | $99.80 |  | $100.89 |  | $101.95 |  | +$1.06 |  | +$2.15 |  |
| 3.5% |  | $101.16 |  | $100.51 |  | $101.23 |  | $102.28 |  | $103.20 |  | +$0.92 |  | +$1.97 |  |
| 4.0% |  | $102.58 |  | $101.98 |  | $102.34 |  | $103.00 |  | $103.84 |  | +$0.84 |  | +$1.50 |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. Price information is for generic instruments only and is not reflective of our specific portfolio holdings. Price information is as of 3:00 p.m. (EST) on such date and can vary by source. Prices and interest rates in the table above were obtained from Barclays. LIBOR rates were obtained from Bloomberg.

27

**FINANCIAL CONDITION**

As of June 30, 2019 and December 31, 2018, our investment portfolio consisted of $93.3 billion and $84.3 billion of investment securities, at fair value, respectively, and $11.2 billion and $7.3 billion of TBA securities, at fair value, respectively. The following table is a summary of our investment portfolio as of June 30, 2019 and December 31, 2018 (dollars in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | **June 30, 2019** | | |  |  |  |  |  |  |  |  | **December 31, 2018** | | | |  |  |
| **Investment Portfolio (Includes TBAs) 1** |  |  | **Amortized** | |  | **Fair Value** |  |  | **Average** | | **%** |  |  | **Amortized** | |  | **Fair Value** |  | **Average** | | **%** |  |
|  | **Cost** |  |  | **Coupon** |  |  |  | **Cost** |  |  | **Coupon** |  |  |
| Fixed rate Agency RMBS and TBA securities: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| ≤ 15-year: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| ≤ 15-year RMBS | | $ | 7,072 |  | $ | 7,152 |  |  | 3.32% |  | 7% |  | $ | 7,386 |  | $ | 7,294 |  | 3.30% |  | 8% |  |
| 15-year TBA securities | |  | 3,181 |  |  | 3,202 |  |  | 3.42% |  | 3% |  |  | 3,635 |  |  | 3,673 |  | 3.61% |  | 4% |  |
| Total ≤ 15-year | |  | 10,253 |  |  | 10,354 |  |  | 3.35% |  | 10% |  |  | 11,021 |  |  | 10,967 |  | 3.40% |  | 12% |  |
| 20-year RMBS | |  | 746 |  |  | 761 |  |  | 3.95% |  | 1% |  |  | 778 |  |  | 774 |  | 3.95% |  | 1% |  |
| 30-year: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 30-year RMBS | |  | 81,566 |  |  | 82,714 |  |  | 3.89% |  | 79% |  |  | 74,883 |  |  | 73,685 |  | 3.87% |  | 80% |  |
| 30-year TBA securities | |  | 7,905 |  |  | 7,968 |  |  | 2.85% |  | 7% |  |  | 3,617 |  |  | 3,649 |  | 4.47% |  | 4% |  |
| Total 30-year | |  | 89,471 |  |  | 90,682 |  |  | 3.79% |  | 86% |  |  | 78,500 |  |  | 77,334 |  | 3.90% |  | 84% |  |
| Total fixed rate Agency RMBS and TBA securities | |  | 100,470 |  |  | 101,797 |  |  | 3.75% |  | 97% |  |  | 90,299 |  |  | 89,075 |  | 3.84% |  | 97% |  |
| Adjustable rate Agency RMBS | |  | 186 |  |  | 188 |  |  | 3.16% |  | —% | |  | 212 |  |  | 213 |  | 3.10% |  | —% |  |
| Multifamily | |  | 30 |  |  | 33 |  |  | 3.56% |  | —% | |  | — | |  | — | | —% | | —% |  |
| CMO Agency RMBS: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| CMO | |  | 517 |  |  | 524 |  |  | 3.46% |  | 1% |  |  | 588 |  |  | 583 |  | 3.46% |  | 1% |  |
| Interest-only strips | |  | 70 |  |  | 84 |  |  | 3.70% |  | —% | |  | 77 |  |  | 84 |  | 3.61% |  | —% |  |
| Principal-only strips | |  | 89 |  |  | 95 |  |  | —% | | —% | |  | 95 |  |  | 94 |  | —% | | —% |  |
| Total CMO Agency RMBS | |  | 676 |  |  | 703 |  |  | 3.25% |  | 1% |  |  | 760 |  |  | 761 |  | 3.21% |  | 1% |  |
| Total Agency RMBS and TBA securities | |  | 101,362 |  |  | 102,721 |  |  | 3.74% |  | 98% |  |  | 91,271 |  |  | 90,049 |  | 3.83% |  | 98% |  |
| Non-Agency RMBS | |  | 250 |  |  | 262 |  |  | 4.21% |  | —% | |  | 264 |  |  | 266 |  | 3.83% |  | 1% |  |
| CMBS | |  | 321 |  |  | 341 |  |  | 4.71% |  | 1% |  |  | 280 |  |  | 282 |  | 4.58% |  | —% |  |
| CRT | |  | 1,106 |  |  | 1,117 |  |  | 5.55% |  | 1% |  |  | 1,006 |  |  | 1,012 |  | 5.86% |  | 1% |  |
| Total investment portfolio | | $ | 103,039 |  | $ | 104,441 |  |  | 3.76% |  | 100% |  | $ | 92,821 |  | $ | 91,609 |  | 3.85% |  | 100% |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. TBA securities are presented net of long and short positions. For further details of our TBA securities refer to Note 6 of the accompanying consolidated financial statements.

TBA securities are recorded as derivative instruments in our accompanying consolidated financial statements and our TBA dollar roll transactions represent a form of off-balance sheet financing. As of June 30, 2019 and December 31, 2018, our TBA positions had a net carrying value of $84 million and $70 million, respectively, reported in derivative assets /(liabilities) on our accompanying consolidated balance sheets. The net carrying value represents the difference between the fair value of the underlying Agency security in the TBA contract and the contract price to be paid or received for the underlying Agency security.

As of June 30, 2019 and December 31, 2018, the weighted average yield on our investment securities (excluding TBA securities) was 3.21% and 3.31%, respectively.

28

The following tables summarize certain characteristics of our fixed rate Agency RMBS portfolio, inclusive of TBAs, as of June 30, 2019 and

December 31, 2018 (dollars in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  | **June 30, 2019** | | |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  | **Includes Net TBA Position** | | | | |  |  |  |  | **Excludes Net TBA Position** | | | | | |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Weighted Average** | | | | **Projected** |  |
| **Fixed Rate Agency RMBS and TBA** | |  |  |  |  | **Amortized** | |  |  |  | **Specified** |  | **Amortized** | |  |  |  |  |  |  | **Life** |  |
|  | **Par Value** |  |  | **Fair Value** | |  |  | **WAC 2** |  | **Yield 3** |  | **Age (Months)** |  |  |
| **Securities** |  |  |  | **Cost** |  | **Pool % 1** |  | **Cost Basis** |  | **CPR 3** |  |
| **Fixed rate** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| ≤ 15-year | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2.5% |  | $ | 1,035 |  | $ | 1,047 |  | $ | 1,045 |  | 75% | 101.1% | |  | 2.98% |  | 2.11% |  | 80 |  | 10% |  |
| 3.0% |  |  | 2,791 |  |  | 2,833 |  |  | 2,851 |  | 65% | 101.6% | |  | 3.51% |  | 2.45% |  | 61 |  | 10% |  |
| 3.5% |  |  | 4,573 |  |  | 4,676 |  |  | 4,733 |  | 33% | 102.1% | |  | 4.06% |  | 2.82% |  | 17 |  | 16% |  |
| 4.0% |  |  | 1,504 |  |  | 1,551 |  |  | 1,578 |  | 68% | 103.1% | |  | 4.60% |  | 3.06% |  | 20 |  | 14% |  |
| 4.5% |  |  | 139 |  |  | 144 |  |  | 145 |  | 98% | 103.7% | |  | 4.87% |  | 3.00% |  | 105 |  | 12% |  |
| ≥ 5.0% | |  | 2 |  |  | 2 |  |  | 2 |  | 89% |  | 103.4% |  | 6.56% |  | 4.43% |  | 141 |  | 14% |  |
| Total ≤ 15-year | |  | 10,044 |  |  | 10,253 |  |  | 10,354 |  | 52% | 102.0% | |  | 3.86% |  | 2.66% |  | 41 |  | 13% |  |
| 20-year | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 3.5% |  |  | 291 |  |  | 297 |  |  | 302 |  | 80% | 101.9% | |  | 4.05% |  | 3.00% |  | 76 |  | 12% |  |
| 4.0% |  |  | 215 |  |  | 222 |  |  | 226 |  | 92% | 103.4% | |  | 4.45% |  | 3.19% |  | 28 |  | 13% |  |
| 4.5% |  |  | 215 |  |  | 225 |  |  | 231 |  | 100% | 104.9% | |  | 5.00% |  | 3.26% |  | 31 |  | 14% |  |
| ≥ 5.0% | |  | 1 |  |  | 2 |  |  | 2 |  | —% |  | 105.3% |  | 5.95% |  | 3.33% |  | 134 |  | 18% |  |
| Total 20-year: | |  | 722 |  |  | 746 |  |  | 761 |  | 89% | 103.2% | |  | 4.46% |  | 3.13% |  | 48 |  | 13% |  |
| 30-year: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 3.0% |  |  | 9,404 |  |  | 9,452 |  |  | 9,493 |  | 1% | 100.1% | |  | 3.58% |  | 2.98% |  | 53 |  | 7% |  |
| 3.5% |  |  | 31,848 |  |  | 32,673 |  |  | 32,901 |  | 47% | 102.8% | |  | 4.09% |  | 3.03% |  | 39 |  | 11% |  |
| 4.0% |  |  | 31,027 |  |  | 32,222 |  |  | 32,797 |  | 79% | 103.8% | |  | 4.54% |  | 3.29% |  | 29 |  | 13% |  |
| 4.5% |  |  | 14,101 |  |  | 14,811 |  |  | 15,175 |  | 92% | 105.1% | |  | 4.98% |  | 3.49% |  | 17 |  | 13% |  |
| 5.0% |  |  | 223 |  |  | 237 |  |  | 241 |  | 68% | 106.3% | |  | 5.53% |  | 3.68% |  | 65 |  | 12% |  |
| ≥ 5.5% | |  | 69 |  |  | 76 |  |  | 75 |  | 50% |  | 109.7% |  | 6.17% |  | 3.33% |  | 152 |  | 13% |  |
| Total 30-year | |  | 86,672 |  |  | 89,471 |  |  | 90,682 |  | 62% |  | 103.6% |  | 4.44% |  | 3.23% |  | 31 |  | 12% |  |
| **Total fixed rate** | | $ | 97,438 |  | $ | 100,470 |  | $ | 101,797 |  | 61% | 103.5% | |  | 4.39% |  | 3.18% |  | 32 |  | 12% |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. Specified pools include pools backed by lower balance loans with original loan balances of up to $200K, HARP pools (defined as pools backed by 100% refinance loans with original LTVs ≥ 80% issued between May 2009 and September 2017), and pools backed by loans 100% originated in New York and Puerto Rico. As of June 30, 2019, lower balance specified pools have a weighted average original loan balance of $113,000 and $118,000 for 15-year and 30-year securities, respectively, and HARP specified pools have a weighted average original LTV of 119% and 136% for 15-year and 30-year securities, respectively.
2. WAC represents the weighted average coupon of the underlying collateral.
3. Portfolio yield incorporates a projected life CPR based on forward rate assumptions as of June 30, 2019.

29

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  | **December 31, 2018** | | | |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  | **Includes Net TBA Position** | | | | |  |  |  |  |  | **Excludes Net TBA Position** | | | | | |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Weighted Average** | | | | **Projected** |  |
| **Fixed Rate Agency RMBS and TBA** | |  |  |  |  | **Amortized** | |  |  |  | **Specified** |  |  | **Amortized** | |  |  |  |  |  |  | **Life** |  |
|  | **Par Value** |  |  | **Fair Value** | |  |  |  | **WAC 2** |  | **Yield 3** |  | **Age (Months)** |  |  |
| **Securities** |  |  |  | **Cost** |  | **Pool % 1** |  |  | **Cost Basis** |  | **CPR 3** |  |
| **Fixed rate** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| ≤ 15-year | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| ≤ 2.5% | | $ | 1,157 |  | $ | 1,170 |  | $ | 1,139 |  | 75% | 101.2% | | |  | 2.98% |  | 2.11% |  | 74 |  | 9% |  |
| 3.0% |  |  | 2,651 |  |  | 2,677 |  |  | 2,650 |  | 75% | 101.7% | | |  | 3.51% |  | 2.44% |  | 56 |  | 9% |  |
| 3.5% |  |  | 4,444 |  |  | 4,498 |  |  | 4,502 |  | 43% | 101.9% | | |  | 4.07% |  | 2.96% |  | 25 |  | 10% |  |
| 4.0% |  |  | 2,449 |  |  | 2,507 |  |  | 2,509 |  | 40% | 103.5% | | |  | 4.47% |  | 2.96% |  | 44 |  | 10% |  |
| 4.5% |  |  | 160 |  |  | 167 |  |  | 165 |  | 99% | 104.0% | | |  | 4.87% |  | 3.01% |  | 99 |  | 11% |  |
| ≥ 5.0% | |  | 2 |  |  | 2 |  |  | 2 |  | 100% |  |  | 102.4% |  | 6.55% |  | 4.57% |  | 134 |  | 14% |  |
| Total ≤ 15-year | |  | 10,863 |  |  | 11,021 |  |  | 10,967 |  | 54% | 102.0% | | |  | 3.82% |  | 2.68% |  | 46 |  | 10% |  |
| 20-year | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 3.5% |  |  | 314 |  |  | 320 |  |  | 318 |  | 80% | 102.0% | | |  | 4.05% |  | 3.00% |  | 70 |  | 10% |  |
| 4.0% |  |  | 206 |  |  | 214 |  |  | 213 |  | 91% | 103.4% | | |  | 4.45% |  | 3.28% |  | 24 |  | 10% |  |
| 4.5% |  |  | 230 |  |  | 242 |  |  | 241 |  | 100% | 105.2% | | |  | 5.00% |  | 3.35% |  | 25 |  | 11% |  |
| ≥ 5.0% | |  | 2 |  |  | 2 |  |  | 2 |  | —% |  |  | 105.7% |  | 5.94% |  | 3.34% |  | 128 |  | 16% |  |
| Total 20-year: | |  | 752 |  |  | 778 |  |  | 774 |  | 89% | 103.4% | | |  | 4.46% |  | 3.19% |  | 44 |  | 11% |  |
| 30-year: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| ≤ 3.0% | |  | 3,178 |  |  | 3,133 |  |  | 3,108 |  | 3% | 100.1% | | |  | 3.58% |  | 2.97% |  | 47 |  | 6% |  |
| 3.5% |  |  | 22,410 |  |  | 23,258 |  |  | 22,496 |  | 71% | 103.2% | | |  | 4.06% |  | 3.05% |  | 38 |  | 6% |  |
| 4.0% |  |  | 37,230 |  |  | 38,564 |  |  | 38,147 |  | 61% | 103.8% | | |  | 4.54% |  | 3.44% |  | 24 |  | 8% |  |
| 4.5% |  |  | 12,777 |  |  | 13,319 |  |  | 13,361 |  | 69% | 104.7% | | |  | 4.99% |  | 3.75% |  | 14 |  | 9% |  |
| 5.0% |  |  | 133 |  |  | 143 |  |  | 142 |  | 117% | 106.8% | | |  | 5.53% |  | 3.80% |  | 61 |  | 9% |  |
| ≥ 5.5% | |  | 75 |  |  | 83 |  |  | 80 |  | 49% |  |  | 110.5% |  | 6.17% |  | 3.35% |  | 147 |  | 12% |  |
| Total 30-year | |  | 75,803 |  |  | 78,500 |  |  | 77,334 |  | 63% |  |  | 103.6% |  | 4.41% |  | 3.34% |  | 28 |  | 8% |  |
| **Total fixed rate** | | $ | 87,418 |  | $ | 90,299 |  | $ | 89,075 |  | 62% | 103.5% | | |  | 4.36% |  | 3.28% |  | 30 |  | 8% |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. See Note 1 of preceding table for specified pool composition. As of December 31, 2018, lower balance specified pools have a weighted average original loan balance of $102,000 and $113,000 for 15-year and 30-year securities, respectively, and HARP specified pools have a weighted average original LTV of 119% and 136% for 15-year and 30-year securities, respectively.
2. WAC represents the weighted average coupon of the underlying collateral.
3. Portfolio yield incorporates a projected life CPR based on forward rate assumptions as of December 31, 2018.

As of June 30, 2019 and December 31, 2018, our investments in CRT and non-Agency securities had the following credit ratings:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | **June 30, 2019** | |  |  |  |  |  | **December 31, 2018** | | | |  |  |  |
| **CRT and Non-Agency Security Credit Ratings 1** |  |  | **CRT** |  |  | **RMBS** |  |  | **CMBS** |  |  | **CRT** |  |  | **RMBS** |  |  | **CMBS** |  |
| AAA | | $ | — | | $ | — | | $ | 29 |  | $ | — | $ | | 160 |  | $ | 52 |  |
| AA | |  | — | |  | 103 |  |  | 211 |  |  | — |  |  | 17 |  |  | 152 |  |
| A | |  | — | |  | 73 |  |  | 28 |  |  | 17 |  |  | 33 |  |  | 15 |  |
| BBB | |  | 14 |  |  | 73 |  |  | 62 |  |  | 25 |  |  | 43 |  |  | 53 |  |
| BB | |  | 538 |  |  | 8 |  |  | 11 |  |  | 492 |  |  | 8 |  |  | 10 |  |
| B | |  | 502 |  |  | 2 |  |  | — | |  | 453 |  |  | 2 |  |  | — |  |
| Not Rated | |  | 63 |  |  | 3 |  |  | — |  |  | 25 |  |  | 3 |  |  | — |  |
| Total | | $ | 1,117 |  | $ | 262 |  | $ | 341 |  | $ | 1,012 | $ | | 266 |  | $ | 282 |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. Represents the lowest of Standard and Poor's ("S&P"), Moody's, Fitch, DBRS, Kroll Bond Rating Agency ("KBRA") and Morningstar credit ratings, stated in terms of the S&P equivalent rating as of each date.

Our CRT securities reference the performance of loans underlying Agency RMBS issued by Fannie Mae or Freddie Mac, which were subject to their underwriting standards. As of June 30, 2019, our CRT securities had floating and fixed rate coupons ranging from 3.0% to 8.8%, referenced to loans originated between 2011 and 2018 with weighted average coupons ranging from

30

3.7% to 4.9%. As of December 31, 2018, our CRT securities had floating rate coupons ranging from 3.9% to 9.5%, referenced to loans originated between

2011 and 2018 with weighted average coupons ranging from 3.8% to 4.8%.

**RESULTS OF OPERATIONS**

***Non-GAAP Financial Measures***

In addition to the results presented in accordance with GAAP, our results of operations discussed below include certain non-GAAP financial information, including "economic interest income," "economic interest expense," "net spread and dollar roll income," "net spread and dollar roll income, excluding 'catch-up' premium amortization," "estimated taxable income" and the related per common share measures and certain financial metrics derived from such non-GAAP information, such as "cost of funds" and "net interest spread."

"Economic interest income" is measured as interest income (GAAP measure), adjusted (i) to exclude "catch-up" premium amortization associated with changes in CPR estimates and (ii) to include TBA dollar roll implied interest income. "Economic interest expense" is measured as interest expense (GAAP measure) adjusted to include TBA dollar roll implied interest expense and interest rate swap periodic income/(cost). "Net spread and dollar roll income, excluding "catch-up" premium amortization" includes (i) the components of economic interest income and economic interest expense and other interest and dividend income (referred to as "adjusted net interest and dollar roll income"), less (ii) total operating expenses (GAAP measure), net of management fee income (GAAP measure), adjusted, as applicable, to exclude one-time expenses and non-recurring termination fee income recognized in connection with the sale of MTGE Investment Corp. and corresponding termination of the Company's management agreement with MTGE.

By providing such measures, in addition to the related GAAP measures, we believe we give greater transparency into the information used by our management in its financial and operational decision-making. We also believe it is important for users of our financial information to consider information related to our current financial performance without the effects of certain measures and one-time events that are not necessarily indicative of our current investment portfolio performance and operations.

Specifically, in the case of "adjusted net interest and dollar roll income," we believe the inclusion of TBA dollar roll income is meaningful as TBAs, which are accounted for under GAAP as derivative instruments with gains and losses recognized in other gain (loss) in our consolidated statement of comprehensive income, are economically equivalent to holding and financing generic Agency RMBS using short-term repurchase agreements. Similarly, we believe that the inclusion of periodic interest rate swap settlements in "economic interest expense" is meaningful as interest rate swaps are the primary instrument we use to economically hedge against fluctuations in our borrowing costs and it is more indicative of our total cost of funds than interest expense alone. In the case of "economic interest income" and "net spread and dollar roll income, excluding 'catch-up' premium amortization," we believe the exclusion of "catch-up" adjustments to premium amortization cost or benefit is meaningful as it excludes the cumulative effect from prior reporting periods due to current changes in future prepayment expectations and, therefore, exclusion of such cost or benefit is more indicative of the current earnings potential of our investment portfolio. In the case of estimated taxable income, we believe it is meaningful information because it directly relates to the amount of dividends we are required to distribute to maintain our REIT qualification status.

However, because such measures are incomplete measures of our financial performance and involve differences from results computed in accordance with GAAP, they should be considered as supplementary to, and not as a substitute for, results computed in accordance with GAAP. In addition, because not all companies use identical calculations, our presentation of such non-GAAP measures may not be comparable to other similarly-titled measures of other companies. Furthermore, estimated taxable income can include certain information that is subject to potential adjustments up to the time of filing our income tax returns, which occurs after the end of our fiscal year.

***Selected Financial Data***

The following selected financial data is derived from our interim consolidated financial statements and the notes thereto. The tables below present our condensed consolidated balance sheets as of June 30, 2019 and December 31, 2018 and our condensed consolidated statements of comprehensive income and key statistics for the three and six months ended June 30, 2019 and 2018 (in millions, except per share amounts):

31

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **($ in Millions, Except Per Share Amounts)** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Balance Sheet Data** | | |  |  |  |  |  |  |  |  | **June 30, 2019** | | | | |  |  | **December 31, 2018** | | | |
| Investment securities, at fair value | | |  |  |  |  | $ | | |  |  |  |  |  | 93,271 |  |  | $ |  |  | 84,287 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total assets | | |  |  |  |  | $ | | |  |  |  |  |  | 106,576 |  |  | $ |  |  | 109,241 |
| Repurchase agreements and other debt | | |  |  |  |  | $ | | |  |  |  |  |  | 86,517 |  |  | $ |  |  | 75,992 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total liabilities | | |  |  |  |  | $ | | |  |  |  |  |  | 96,230 |  |  | $ |  |  | 99,335 |
| Total stockholders' equity | | |  |  |  |  | $ | | |  |  |  |  |  | 10,346 |  |  | $ |  |  | 9,906 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net book value per common share 1 | | |  |  |  |  | $ | | |  |  |  |  |  | 17.54 |  |  | $ |  |  | 17.54 |
| Tangible net book value per common share 2 | | |  |  |  |  | $ | | |  |  |  |  |  | 16.58 |  |  | $ |  |  | 16.56 |
|  |  |  |  | **Three Months Ended June 30,** | | | | | | |  |  |  |  | **Six Months Ended June 30,** | | | | | | |
| **Statement of Comprehensive Income Data** | |  |  | **2019** |  |  | **2018** | | |  |  |  |  |  | **2019** |  |  |  |  |  | **2018** |
| Interest income | | | $ | 693 |  | $ | 414 | | | | $ | | | | 1,398 | | |  |  | $ | 845 |
| Interest expense | | |  | 570 |  |  | 237 | | | |  |  |  |  | 1,111 | | |  |  |  | 443 |
| Net interest income | | |  | 123 |  |  | 177 | | | |  |  |  |  | 287 | | |  |  |  | 402 |
| Other gain (loss), net | | |  | (547) |  |  | 134 | | | |  |  |  |  | (427) | | | |  |  | 351 |
| Operating expenses | | |  | 20 |  |  | 18 | | | |  |  |  |  | 39 | | |  |  |  | 36 |
| Net income (loss) | | |  | (444) |  |  | 293 | | | |  |  |  |  | (179) | | | |  |  | 717 |
| Dividend on preferred stock | | |  | 13 |  |  | 9 | | | |  |  |  |  | 23 | | |  |  |  | 18 |
| Net income (loss) available (attributable) to common stockholders | | | $ | (457) |  | $ | 284 | | | | $ | | | | (202) | | | |  | $ | 699 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income (loss) | | | $ | (444) |  | $ | 293 | | | | $ | | | | (179) | | | |  | $ | 717 |
| Other comprehensive income (loss), net | | |  | 379 |  |  | (145) | | | | |  |  |  | 779 | | |  |  |  | (766) |
| Comprehensive income (loss) | | |  | (65) |  |  | 148 | | | |  |  |  |  | 600 | | |  |  |  | (49) |
| Dividend on preferred stock | | |  | 13 |  |  | 9 | | | |  |  |  |  | 23 | | |  |  |  | 18 |
| Comprehensive income (loss) available (attributable) to common stockholders | | | $ | (78) |  | $ | 139 | | | | $ | | | | 577 | | |  |  | $ | (67) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Weighted average number of common shares outstanding - basic | | |  | 537.8 |  |  | 404.9 | | | |  |  |  |  | 537.2 | | |  |  |  | 398.2 |
| Weighted average number of common shares outstanding - diluted | | |  | 537.8 |  |  | 405.2 | | | |  |  |  |  | 537.2 | | |  |  |  | 398.4 |
|  |  |  |  |  |  |  |  | | |  |  |  |  |  |  | | | |  |  |  |
| Net income (loss) per common share - basic | | | $ | (0.85) |  | $ | 0.70 | | | |  | |  | $ | (0.38) | | | |  | $ | 1.76 |
| Net income (loss) per common share - diluted | | | $ | (0.85) |  | $ | 0.70 | | | |  | |  | $ | (0.38) | | | |  | $ | 1.75 |
|  |  |  |  |  |  |  |  | | |  |  |  |  |  |  | | |  |  |  |  |
| Comprehensive income (loss) per common share - basic and diluted | | | $ | (0.15) |  | $ | 0.34 | | | |  | |  | $ | 1.07 | | |  |  | $ | (0.17) |
| Dividends declared per common share | | | $ | 0.50 |  | $ | 0.54 | | | |  | |  | $ | 1.04 | | |  |  | $ | 1.08 |
|  |  |  |  | |  |  | | | |  |  |  |  |  |  | | | |  |  | |
|  |  |  | **Three Months Ended June 30,** | | | | | | |  |  |  |  |  | **Six Months Ended June 30,** | | | | | | |
| **Other Data (Unaudited) \*** | | |  | **2019** |  |  | **2018** |  |  |  |  |  |  |  | **2019** |  |  |  |  |  | **2018** |



|  |  |
| --- | --- |
| Average investment securities - at par | $ |
| Average investment securities - at cost | $ |
| Average net TBA portfolio - at cost | $ |
| Average total assets - at fair value | $ |
| Average Agency repurchase agreements and other debt outstanding 3 | $ |
| Average stockholders' equity 4 | $ |
| Average tangible net book value "at risk" leverage 5 |  |
| Tangible net book value "at risk" leverage *(as of period end)* 6 |  |
| Economic return on tangible common equity 7 |  |
| Expenses % of average total assets |  |
| Expenses % of average assets, including average net TBA position |  |



Expenses % of average stockholders' equity

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

\* Except as noted below, average numbers for each period are weighted based on days on our books and records.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 89,586 | $ | 52,856 | $ | 88,304 | $ | 53,421 |
| 92,610 | $ | 55,329 | $ | 91,264 | $ | 55,927 |
| 11,864 | $ | 16,912 | $ | 9,944 | $ | 16,252 |
| 113,625 | $ | 68,830 | $ | 114,281 | $ | 68,785 |
| 86,147 | $ | 47,823 | $ | 84,120 | $ | 48,690 |
| 10,371 | $ | 8,652 | $ | 10,247 | $ | 8,630 |
| 10.0:1 |  | 8.0:1 |  | 9.7:1 |  | 8.1:1 |
| 9.8:1 |  | 8.3:1 |  | 9.8:1 |  | 8.3:1 |
| (0.9)% |  | 1.7% |  | 6.4% |  | (1.0)% |
| 0.07 % |  | 0.10% |  | 0.07% |  | 0.10 % |
| 0.06 % |  | 0.08% |  | 0.06% |  | 0.08 % |
| 0.77 % |  | 0.83% |  | 0.76% |  | 0.83 % |

32

1. Net book value per common share is calculated as total stockholders' equity, less preferred stock liquidation preference, divided by number of common shares outstanding as of period end.
2. Tangible net book value per common share excludes goodwill.
3. Amount includes repurchase agreements for non-Agency securities. Amount excludes U.S. Treasury repurchase agreements and TBA contracts. Other debt includes debt of consolidated VIEs.
4. Average stockholders' equity calculated as average month-ended stockholders' equity during the period.
5. Average tangible net book value "at risk" leverage is calculated by dividing the sum of daily weighted average mortgage borrowings outstanding (Agency repo, other debt and TBA securities (at cost)) for the period by the sum of average stockholders' equity adjusted to exclude goodwill for the period. Leverage excludes U.S. Treasury repurchase agreements.
6. "At risk" leverage as of period end is calculated by dividing the sum of mortgage borrowings outstanding and receivable/payable for unsettled investment securities as of period end (at cost) by the sum of total stockholders' equity adjusted to exclude goodwill as of period end. Leverage excludes U.S. Treasury repurchase agreements.
7. Economic return on tangible common equity represents the sum of the change in tangible net book value per common share and dividends declared on common stock during the period over beginning tangible net book value per common share.

***Economic Interest Income and Asset Yields***

The following table summarizes our economic interest income (a non-GAAP measure) for the three and six months ended June 30, 2019 and 2018, which includes the combination of interest income (a GAAP measure) on our holdings reported as investment securities on our consolidated balance sheets, adjusted to exclude estimated "catch-up" premium amortization adjustments for the cumulative effect from prior reporting periods of changes in our CPR forecast, and implied interest income on our TBA securities (dollars in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Three Months Ended June 30,** | | | | | | | |  |  |  |  |  | **Six Months Ended June 30,** | | | | | | |  |  |
|  |  | **2019** | | |  |  |  | **2018** | | |  |  |  | **2019** | | |  |  |  | **2018** | | |  |  |
|  |  | **Amount** | | | **Yield** | |  | **Amount** | | | **Yield** | |  | **Amount** | | | **Yield** | |  | **Amount** | | | **Yield** |  |
| Interest income: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cash/coupon interest income | $ | 876 |  |  | 3.88 % |  | $ | 488 |  |  | 3.71 % |  | $ | 1,723 |  |  | 3.88 % |  | $ | 988 |  |  | 3.70 % |  |
| Net premium amortization |  | (183) |  |  | (0.89)% |  |  | (74) |  |  | (0.72)% |  |  | (325) |  |  | (0.82)% |  |  | (143) |  |  | (0.68)% |  |
| Interest income (GAAP measure) |  | 693 |  |  | 2.99 % |  |  | 414 |  |  | 2.99 % |  |  | 1,398 |  |  | 3.06 % |  |  | 845 |  |  | 3.02 % |  |
| Estimated "catch-up" premium amortization cost (benefit) due to |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| change in CPR forecast |  | 58 |  |  | 0.25 % |  |  | (12) |  |  | (0.08)% |  |  | 97 |  |  | 0.22 % |  |  | (33) |  |  | (0.12)% |  |
| Interest income, excluding "catch-up" premium amortization |  | 751 |  |  | 3.24 % |  |  | 402 |  |  | 2.91 % |  |  | 1,495 |  |  | 3.28 % |  |  | 812 |  |  | 2.90 % |  |
| TBA dollar roll income - implied interest income 1,2 |  | 96 |  |  | 3.21 % |  |  | 144 |  |  | 3.41 % |  |  | 167 |  |  | 3.35 % |  |  | 264 |  |  | 3.25 % |  |
| Economic interest income, excluding "catch-up" amortization | $ | 847 |  |  | 3.24 % |  | $ | 546 |  |  | 3.02 % |  | $ | 1,662 |  |  | 3.28 % |  | $ | 1,076 |  |  | 2.98 % |  |
| (non-GAAP measure) 3 |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Weighted average actual portfolio CPR for investment securities |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| held during the period |  | 10.0% |  |  |  |  |  | 9.7% |  |  |  |  |  | 8.2% |  |  |  |  |  | 9.1% |  |  |  |  |
| Weighted average projected CPR for the remaining life of |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| investment securities held as of period end |  | 12.4% |  |  |  |  |  | 7.1% |  |  |  |  |  | 12.4% |  |  |  |  |  | 7.1% |  |  |  |  |
| Average 30-year fixed rate mortgage rate as of period end 4 |  | 3.73% |  |  |  |  |  | 4.55% |  |  |  |  |  | 3.73% |  |  |  |  |  | 4.55% |  |  |  |  |
| 10-year U.S. Treasury rate as of period end |  | 2.01% |  |  |  |  |  | 2.86% |  |  |  |  |  | 2.01% |  |  |  |  |  | 2.86% |  |  |  |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. Reported in gain (loss) on derivatives instruments and other securities, net in the accompanying consolidated statements of operations.
2. Implied interest income from TBA dollar roll transactions is computed as the sum of (i) TBA dollar roll income and (ii) estimated TBA implied funding cost (see *Economic Interest* *Expense and Aggregate Cost of Funds* below). TBA dollar roll income represents the price differential, or "price drop," between the TBA price for current month settlement versus theTBA price for forward month settlement and is the economic equivalent to interest income on the underlying Agency securities, less an implied funding cost, over the forward settlement period. Amount is net of TBAs used for hedging purposes. Amount excludes TBA mark-to-market adjustments.
3. The combined asset yield is calculated on a weighted average basis based on our average investment and TBA balances outstanding during the period and their respective yields.
4. Source: Freddie Mac Primary Fixed Mortgage Rate Mortgage Market Survey

The principal elements impacting our economic interest income are the size of our average investment portfolio and the yield (actual and implied) on our securities. The following table includes a summary of the estimated impact of each of these elements on our economic interest income for the three and six months ended June 30, 2019, compared to the prior year period (in millions):

33

**Impact of Changes in the Principal Elements Impacting Economic Interest Income**



**Periods ended June 30, 2019 vs. June 30, 2018**



|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Due to Change in Average** | | | |
|  |  | **Total Increase /** | |  | **Portfolio** | |  | **Asset** |
|  |  | **(Decrease)** | |  | **Size** | |  | **Yield** |
| **Three months ended:** |  |  |  |  |  |  |  |  |
| Interest Income (GAAP measure) | $ | 279 |  | $ | 279 |  | $ | — |
| Estimated "catch-up" premium amortization due to change in CPR forecast |  | 70 |  |  | — | |  | 70 |
| Interest income, excluding "catch-up" premium amortization |  | 349 |  |  | 279 |  |  | 70 |
| TBA dollar roll income - implied interest income |  | (48) |  |  | (47) |  |  | (1) |
| Economic interest income, excluding "catch-up" amortization (non-GAAP measure) | $ | 301 |  | $ | 232 |  | $ | 69 |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| **Six months ended:** |  |  |  |  |  |  |  |  |
| Interest Income (GAAP measure) | $ | 553 |  | $ | 534 |  | $ | 19 |
| Estimated "catch-up" premium amortization due to change in CPR forecast |  | 130 |  |  | — | |  | 130 |
| Interest income, excluding "catch-up" premium amortization |  | 683 |  |  | 534 |  |  | 149 |
| TBA dollar roll income - implied interest income |  | (97) |  |  | (102) |  |  | 5 |
| Economic interest income, excluding "catch-up" amortization (non-GAAP measure) | $ | 586 |  | $ | 432 |  | $ | 154 |
|  |  |  |  |  |  |  |  |  |

Our average investment portfolio, inclusive of TBAs, increased 45% and 40% (at cost) for the three and six months ended June 30, 2019, compared to the corresponding prior year period, in line with the deployment of new equity capital and an increase in our tangible equity "at risk" leverage ratio. The increase in our average asset yields, excluding "catch-up" amortization, over the prior year period was largely due to changes in asset composition, partly offset by an increase in premium amortization expense resulting from faster CPR projections.

***Leverage***

Our primary measure of leverage is our tangible net book value "at risk" leverage ratio, which is measured as the sum of our repurchase agreements and other debt used to fund our investment securities and net TBA position (at cost) (together referred to as "mortgage borrowings") and our net receivable/payable for unsettled investment securities, divided by our total stockholders' equity adjusted to exclude goodwill and other intangible asset.

We include our net TBA position in our measure of leverage because a forward contract to acquire Agency RMBS in the TBA market carries similar risks to Agency RMBS purchased in the cash market and funded with on-balance sheet liabilities. Similarly, a TBA contract for the forward sale of Agency securities has substantially the same effect as selling the underlying Agency RMBS and reducing our on-balance sheet funding commitments. (Refer to *Liquidity and Capital Resources* for further discussion of TBA securities and dollar roll transactions). Repurchase agreements used to fund short-terminvestments in U.S. Treasury securities ("U.S. Treasury repo") are excluded from our measure of leverage due to the temporary and highly liquid nature of these investments.

Our leverage varies depending on market conditions and our assessment of risks and returns, but we generally would expect our leverage to be within six to twelve times the amount of our tangible net book value. As of June 30, 2019, our tangible net book value "at risk" leverage was 9.8x, compared to 9.0x as of December 31, 2018. The table below presents a summary of our leverage ratios for the periods listed (dollars in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Repurchase Agreements** | | | | | |  |  |  |  | **Net TBA Position** | | | |  |  |  | **Tangible Net Book** |  |
|  |  |  |  |  |  | **and Other Debt 1** | | | |  |  |  |  | **Long/(Short) 2** | | | |  | **Average Tangible Net** | | **Value "At Risk"** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Book Value** | | **Leverage** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | **Average Daily** |  |  |  | **Maximum** | | |  | **Ending** | |  | **Average Daily** | |  | **Ending** |  | **"At Risk" Leverage** | | **as of** |  |
| **Quarter Ended** |  |  | **Amount** |  |  |  | **Daily Amount** |  |  |  | **Amount** |  |  | **Amount** |  |  | **Amount** |  | **during the Period 3** |  | **Period End 4** |  |
| June 30, 2019 | | $ | 86,147 | $ | | | 86,969 |  |  | $ | 85,367 |  | $ | 11,864 |  | $ | 11,086 | 10.0:1 | |  | 9.8:1 |  |
| March 31, 2019 | | $ | 82,070 | $ | | | 87,877 |  |  | $ | 86,590 |  | $ | 8,002 |  | $ | 6,885 | 9.3:1 | |  | 9.4:1 |  |
| December 31, 2018 | | $ | 68,499 | $ | | | 77,442 |  |  | $ | 75,992 |  | $ | 8,066 |  | $ | 7,252 | 8.4:1 | |  | 9.0:1 |  |
| September 30, 2018 | | $ | 56,265 | $ | | | 66,969 |  |  | $ | 65,975 |  | $ | 18,270 |  | $ | 9,436 | 8.5:1 | |  | 8.2:1 |  |
| June 30, 2018 | | $ | 47,823 | $ | | | 49,892 |  |  | $ | 49,152 |  | $ | 16,912 |  | $ | 19,898 | 8.0:1 | |  | 8.3:1 |  |
| March 31, 2018 | | $ | 49,567 | $ | | | 50,645 |  |  | $ | 49,292 |  | $ | 15,585 |  | $ | 13,529 | 8.2:1 | |  | 8.2:1 |  |

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1. Other debt includes debt of consolidated VIEs. Amounts exclude U.S. Treasury repo agreements.
2. Daily average and ending net TBA position outstanding measured at cost.

34

1. Average Tangible "at risk" leverage during the period represents the sum of our daily weighted average repurchase agreements and other debt used to fund acquisitions of investment securities and net TBA position outstanding divided by the sum of our average month-ended stockholders' equity, adjusted to exclude goodwill, other intangible asset and investment in REIT equity securities for the period.
2. Tangible net book value "at risk" leverage as of period end represents the sum of our repurchase agreements and other debt used to fund acquisitions of investments securities, net TBA position (at cost) and net receivable/payable for unsettled investment securities outstanding as of period end divided by total stockholders' equity, adjusted to exclude goodwill, other intangible asset and investment in REIT equity securities as of period end.

***Economic Interest Expense and Aggregate Cost of Funds***

The following table summarizes our economic interest expense and aggregate cost of funds (non-GAAP measures) for the three and six months ended June 30, 2019 and 2018 (dollars in millions), which includes the combination of interest expense on Agency repurchase agreements and other debt (GAAP measure), implied interest expense on our TBA securities and interest rate swap periodic interest (income) cost:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Three Months Ended June 30,** | | | | | | | | |  |  |  |  | **Six Months Ended June 30,** | | | | | | |  |  |
|  |  |  | **2019** | | |  |  |  | **2018** | | |  |  |  | **2019** | | |  |  | **2018** | | |  |  |
| **Economic Interest Expense and Aggregate** | |  | **Amount** |  |  | **Cost of** | |  | **Amount** |  |  | **Cost of** | |  | **Amount** |  | **Cost of** | |  | **Amount** |  |  | **Cost of** |  |
| **Cost of Funds 1** |  |  | **Funds** |  |  | **Funds** |  |  |  | **Funds** |  |  | **Funds** |  |
| Repurchase agreement and other debt - interest | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| expense (GAAP measure) | | $ | 570 |  |  | 2.62 % |  | $ | 237 |  |  | 1.99 % |  | $ | 1,111 | 2.63 % | |  | $ | 443 |  |  | 1.83 % |  |
| TBA dollar roll income - implied interest | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| expense 2,3 | |  | 74 |  |  | 2.47 % |  |  | 74 |  |  | 1.75 % |  |  | 126 | 2.51 % | |  |  | 132 |  |  | 1.63 % |  |
| Economic interest expense - before interest | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| rate swap periodic (income) costs, net 4 | |  | 644 |  |  | 2.60 % |  |  | 311 |  |  | 1.92 % |  |  | 1,237 | 2.61 % | |  |  | 575 |  |  | 1.79 % |  |
| Interest rate swap periodic interest (income) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| cost, net 2,5 | |  | (88) |  |  | (0.36)% |  |  | (41) |  |  | (0.25)% |  |  | (171) |  | (0.36)% |  |  | (32) |  |  | (0.10)% |  |
| Total economic interest expense (non- | | $ | 556 |  |  | 2.24 % |  | $ | 270 |  |  | 1.67 % |  | $ | 1,066 |  | 2.25 % |  | $ | 543 |  |  | 1.69 % |  |
| GAAP measure) | |  |  |  |  |  |  |  |  |  |  |



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1. Amounts exclude interest rate swap termination fees and variation margin settlements paid or received, forward starting swaps and the impact of other supplemental hedges, such as swaptions and U.S. Treasury positions.
2. Reported in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income.
3. The implied funding cost of TBA dollar roll transactions is determined using the price differential, or "price drop," between the TBA price for current month settlement versus the TBA price for forward month settlement and market based assumptions regarding the "cheapest-to-deliver" collateral that can be delivered to satisfy the TBA contract, such as the anticipated collateral’s weighted average coupon, weighted average maturity and projected 1-month CPR. The average implied funding cost for all TBA transactions is weighted based on our daily average TBA balance outstanding for the period.
4. The combined cost of funds for total mortgage borrowings outstanding, before interest rate swap costs, is calculated on a weighted average basis based on average repo, other debt and TBA balances outstanding during the period and their respective cost of funds.
5. Interest rate swap periodic interest (income) cost is measured as a percent of average mortgage borrowings outstanding for the period.

The principal elements impacting our economic interest expense are (i) the size of our average mortgage borrowings and interest rate swap portfolio outstanding during the period, (ii) the average interest rate (actual and implied) on our mortgage borrowings and (iii) the average net interest rate paid/received on our interest rate swaps. The following table includes a summary of the estimated impact of these elements on our economic interest expense for the three and six months ended June 30, 2019, compared to the prior year period (in millions):

**Impact of Changes in the Principal Elements of Economic Interest Expense**



**Periods ended June 30, 2019 vs. June 30, 2018**



|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Due to Change in Average** | | | |
|  |  | **Total Increase /** | |  | **Borrowing / Swap** | |  | **Borrowing / Swap** |
|  |  | **(Decrease)** | |  | **Balance** | |  | **Rate** |
| **Three months ended:** |  |  |  |  |  |  |  |  |
| Repurchase agreements and other debt interest expense | $ | 333 |  | $ | 194 |  | $ | 139 |
| TBA dollar roll income - implied interest expense |  | (1) |  |  | (22) |  |  | 21 |
| Interest rate swap periodic interest income/cost |  | (47) |  |  | (9) |  |  | (38) |
| Total change in economic interest expense | $ | 285 |  | $ | 163 |  | $ | 122 |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| **Six months ended:** |  |  |  |  |  |  |  |  |
| Repurchase agreements and other debt interest expense | $ | 668 |  | $ | 322 |  | $ | 346 |
| TBA dollar roll income - implied interest expense |  | (6) |  |  | (51) |  |  | 45 |
| Interest rate swap periodic interest income/cost |  | (139) |  |  | (5) |  |  | (134) |
| Total change in economic interest expense | $ | 523 |  | $ | 266 |  | $ | 257 |
|  |  |  |  |  |  |  |  |  |

Our average mortgage borrowings, inclusive of TBAs, increased by 51% and 45% for the three and six months ended June 30, 2019, respectively, compared to the prior year period as a function of our higher asset base. The increase in the average interest

35

rate (actual and implied) on our mortgage borrowings was largely driven by increases in the Federal Funds rate during fiscal year 2018. The increase in our interest rate swap periodic interest income was largely due to the receive-floating rate leg of our interest rate swaps resetting to higher prevailing rates.

The table below presents a summary of the ratio of our average interest rates swaps outstanding, excluding forward starting swaps, to our average mortgage borrowings for the three and six months ended June 30, 2019 and 2018 (dollars in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Three Months Ended June 30,** | | | | |  | **Six Months Ended June 30,** | | | |  |
| **Average Ratio of Interest Rate Swaps (Excluding Forward Starting Swaps) to Mortgage** | |  | **2019** |  |  | **2018** |  |  | **2019** |  |  | **2018** |  |
| **Borrowings Outstanding** |  |  |  |  |  |  |  |  |  |
| Average Agency repo and other debt outstanding | | $ | 86,147 |  | $ | 47,823 |  | $ | 84,120 |  | $ | 48,690 |  |
| Average net TBA portfolio outstanding - at cost | | $ | 11,864 |  | $ | 16,912 |  | $ | 9,944 |  | $ | 16,252 |  |
| Average mortgage borrowings outstanding | | $ | 98,011 |  | $ | 64,735 |  | $ | 94,064 |  | $ | 64,942 |  |
| Average notional amount of interest rate swaps outstanding (excluding forward starting | |  |  |  |  |  |  |  |  |  |  |  |  |
| swaps) | | $ | 52,035 |  | $ | 42,804 |  | $ | 48,616 |  | $ | 41,918 |  |
| Ratio of average interest rate swaps to mortgage borrowings outstanding | |  | 53 % |  |  | 66 % |  |  | 52 % |  |  | 65 % |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Average interest rate swap pay-fixed rate (excluding forward starting swaps) | |  | 1.90 % |  |  | 1.79 % |  |  | 1.93 % |  |  | 1.76 % |  |
| Average interest rate swap receive-floating rate | |  | (2.58)% |  |  | (2.17)% |  |  | (2.64)% |  |  | (1.91)% |  |
| Average interest rate swap net pay/(receive) rate | |  | (0.68)% |  |  | (0.38)% |  |  | (0.71)% |  |  | (0.15)% |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

For the three and six months ended June 30, 2019, we had an average forward starting swap balance of $3.5 billion and $4.3 billion, respectively. For the three and six months ended June 30, 2018, we had an average forward starting swap balance of $3.9 billion and $3.6 billion, respectively. Forward starting interest rate swaps do not impact our economic interest expense and aggregate cost of funds until they commence accruing net interest settlements on their forward start dates. Including forward starting swaps, our average ratio of interest rate swaps outstanding to our average mortgage borrowings for the three and six months ended June 30, 2019 was 57% and 56%, respectively, and 72% and 70%, respectively, for the prior year period.

***Net Interest Spread***

The following table presents a summary of our net interest spread (including the impact of TBA dollar roll income, interest rate swaps and excluding "catch-up" premium amortization) for the three and six months ended June 30, 2019 and 2018:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended** | | | | | **Six Months Ended June** | | | |
|  |  | **June 30,** | | |  |  | **30,** | | |  |
| **Investment and TBA Securities - Net Interest Spread** |  | **2019** |  |  | **2018** |  | **2019** |  |  | **2018** |
| Average asset yield, excluding "catch-up" premium amortization | | 3.24 % |  |  | 3.02 % |  | 3.28 % |  |  | 2.98 % |
| Average aggregate cost of funds | | (2.24)% |  |  | (1.67)% |  | (2.25)% |  |  | (1.69)% |
| Average net interest spread, excluding "catch-up" premium amortization | | 1.00 % |  |  | 1.35 % |  | 1.03 % |  |  | 1.29 % |
|  |  |  |  |  |  |  |  |  |  |  |

36

***Net Spread and Dollar Roll Income***

The following table presents a summary of our net spread and dollar roll income, excluding estimated "catch-up" premium amortization, per diluted common share (a non-GAAP financial measure) and a reconciliation to our net interest income (the most comparable GAAP financial measure) for the three and six months ended June 30, 2019 and 2018 (dollars in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June** | | | | | | |  | **Six Months Ended June** | | | | |  |
|  |  |  | **30,** | | |  |  |  |  | **30,** | | |  |  |
|  |  | **2019** |  |  |  | **2018** |  |  | **2019** |  |  |  | **2018** |  |
| Net interest income (GAAP measure) | $ | 123 | $ | | | 177 |  | $ | 287 | $ | | | 402 |  |
| TBA dollar roll income, net 1 |  | 22 |  |  |  | 70 |  |  | 41 |  |  |  | 132 |  |
| Interest rate swap periodic interest income (cost), net 1 |  | 88 |  |  |  | 41 |  |  | 171 |  |  |  | 32 |  |
| Other interest and dividend income 1 |  | 4 |  |  |  | 1 |  |  | 7 |  |  |  | 2 |  |
| Adjusted net interest and dollar roll income |  | 237 |  |  |  | 289 |  |  | 506 |  |  |  | 568 |  |
| Other operating income (expense): |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Management fee income |  | — |  |  |  | 4 |  |  | — |  |  |  | 8 |  |
| Operating expenses |  | (20) |  |  |  | (18) |  |  | (39) |  |  |  | (36) |  |
| Adjusted other operating income (expense), net |  | (20) |  |  |  | (14) |  |  | (39) |  |  |  | (28) |  |
| Net spread and dollar roll income |  | 217 |  |  |  | 275 |  |  | 467 |  |  |  | 540 |  |
| Dividend on preferred stock |  | 13 |  |  |  | 9 |  |  | 23 |  |  |  | 18 |  |
| Net spread and dollar roll income available to common stockholders (non-GAAP measure) |  | 204 |  |  |  | 266 |  |  | 444 |  |  |  | 522 |  |
| Estimated "catch-up" premium amortization cost (benefit) due to change in CPR forecast |  | 58 |  |  |  | (12) |  |  | 97 |  |  |  | (33) |  |
| Net spread and dollar roll income, excluding "catch-up" premium amortization, available to | $ | 262 | $ | | | 254 |  | $ | 541 | $ | | | 489 |  |
| common stockholders (non-GAAP measure) |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Weighted average number of common shares outstanding - basic |  | 537.8 |  |  |  | 404.9 |  |  | 537.2 |  |  |  | 398.2 |  |
| Weighted average number of common shares outstanding - diluted |  | 538.4 |  |  |  | 405.2 |  |  | 537.8 |  |  |  | 398.4 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net spread and dollar roll income per common share - basic | $ | 0.38 |  |  | $ | 0.66 |  | $ | 0.83 |  |  | $ | 1.31 |  |
| Net spread and dollar roll income per common share - diluted | $ | 0.38 | $ | | | 0.66 |  | $ | 0.83 | $ | | | 1.31 |  |
| Net spread and dollar roll income, excluding "catch-up" premium amortization, per common |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| $ | 0.49 |  |  | $ | 0.63 |  | $ | 1.01 |  |  | $ | 1.23 |  |
| share - basic |  |  |
| Net spread and dollar roll income, excluding "catch-up" premium amortization, per common | $ | 0.49 |  |  | $ | 0.63 |  | $ | 1.01 |  |  | $ | 1.23 |  |
| share - diluted |  |  |



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1. Reported in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income

***Gain (Loss) on Investment Securities, Net***

During the three and six months ended June 30, 2019, the fair value of our investment portfolio increased relative to its amortized cost due to both a decline in long-term interest rates and an increase in the premium, or pay-up values, for specified Agency RMBS, which have a lower likelihood of prepayment than generic Agency securities. Conversely, during the prior year periods, the average fair value of our investment portfolio declined due to the increase in long-term interest rates and lower pay-up values for specified Agency RMBS. The following table is a summary of our net gain (loss) on investment securities for the three and six months ended June 30, 2019 and 2018 (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended June 30,** | | | | | |  | **Six Months Ended June 30,** | | | |  |
| **Gain (Loss) on Investment Securities, Net 1** |  |  | **2019** |  |  | **2018** |  |  | **2019** |  |  | **2018** |  |
| Gain (loss) on sale of investment securities, net | | $ | 132 |  | $ | (74) |  | $ | 192 |  | $ | (76) |  |
| Unrealized gain (loss) on investment securities measured at fair value through net income, net 2 | |  | 759 |  |  | (94) |  |  | 1,819 |  |  | (617) |  |
| Unrealized gain (loss) on investment securities measured at fair value through other comprehensive income, net | |  | 379 |  |  | (145) |  |  | 779 |  |  | (766) |  |
| Total gain (loss) on investment securities, net | | $ | 1,270 |  | $ | (313) |  | $ | 2,790 |  | $ | (1,459) |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

1. Amounts exclude gain (loss) on TBA securities, which are reported in gain (loss) on derivative instruments and other securities, net in our Consolidated Statements of Comprehensive Income.
2. Investment securities acquired after fiscal year 2016 are measured at fair value through net income (see Note 3 of our Consolidated Financial Statements in this Form 10-Q).

37

***Gain (Loss) on Derivative Instruments and Other Securities, Net***

The following table is a summary of our gain (loss) on derivative instruments and other securities, net for the three and six months ended June 30, 2019 and 2018 (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended June 30,** | | | | |  | **Six Months Ended June 30,** | | | |
|  |  | **2019** |  |  | **2018** |  |  | **2019** |  |  | **2018** |
| Interest rate swap periodic interest income (cost), net | $ | 88 |  | $ | 41 |  | $ | 171 |  | $ | 32 |
| Realized gain (loss) on derivative instruments and other securities, net: |  |  |  |  |  |  |  |  |  |  |  |
| TBA securities - dollar roll income, net |  | 22 |  |  | 70 |  |  | 41 |  |  | 132 |
| TBA securities - mark-to-market net gain (loss) |  | 126 |  |  | (108) |  |  | 191 |  |  | (540) |
| Payer swaptions |  | (17) |  |  | 30 |  |  | (27) |  |  | 36 |
| U.S. Treasury securities - long position |  | 1 |  |  | — | |  | 1 |  |  | — |
| U.S. Treasury securities - short position |  | (551) |  |  | (4) |  |  | (617) |  |  | (1) |
| U.S. Treasury futures - short position |  | (50) |  |  | (6) |  |  | (95) |  |  | 104 |
| Interest rate swaps - termination fees and variation margin settlements, net |  | (940) |  |  | 134 |  |  | (1,639) |  |  | 716 |
| Other |  | (2) |  |  | 1 |  |  | (8) |  |  | 2 |
| Total realized gain (loss) on derivative instruments and other securities, net |  | (1,411) |  |  | 117 |  |  | (2,153) |  |  | 449 |
| Unrealized gain (loss) on derivative instruments and other securities, net: |  |  |  |  |  |  |  |  |  |  |  |
| TBA securities - mark-to-market net gain (loss) |  | 15 |  |  | 24 |  |  | 14 |  |  | 102 |
| Interest rate swaps |  | (167) |  |  | 41 |  |  | (147) |  |  | 131 |
| Payer swaptions |  | (8) |  |  | 4 |  |  | (25) |  |  | 89 |
| U.S. Treasury securities - long position |  | 5 |  |  | — | |  | 5 |  |  | — |
| U.S. Treasury securities - short position |  | 46 |  |  | 39 |  |  | (313) |  |  | 248 |
| U.S. Treasury futures - short position |  | (7) |  |  | 27 |  |  | 7 |  |  | (21) |
| Other |  | 1 |  |  | 5 |  |  | 3 |  |  | 6 |
| Total unrealized gain (loss) on derivative instruments and other securities, net |  | (115) |  |  | 140 |  |  | (456) |  |  | 555 |
| Total gain (loss) on derivative instruments and other securities, net | $ | (1,438) |  | $ | 298 |  | $ | (2,438) |  | $ | 1,036 |
|  |  |  |  |  |  |  |  |  |  |  |  |

For further details regarding our use of derivative instruments and related activity refer to Notes 3 and 6 of our Consolidated Financial Statements in this Form 10-Q.

***Estimated Taxable Income***

For the three months ended June 30, 2019 and 2018, we had estimated taxable income available to common stockholders of $171 million and $104 million (or $0.32 and $0.26 per diluted common share), respectively. For the six months ended June 30, 2019 and 2018, we had estimated taxable income available to common stockholders of $367 million and $183 million (or $0.68 and $0.46 per diluted common share), respectively. Income determined under GAAP differs from income determined under U.S. federal income tax rules because of both temporary and permanent differences in income and expense recognition. The primary differences are (i) unrealized gains and losses on derivative instruments and other securities marked-to-market in current income for GAAP purposes, but excluded from taxable income until realized or settled, (ii) timing differences, both temporary and potentially permanent, in the recognition of certain realized gains and losses and (iii) temporary differences related to the amortization of premiums and discounts on investments. Furthermore, our estimated taxable income is subject to potential adjustments up to the time of filing our appropriate tax returns, which occurs after the end of our fiscal year. The following is a reconciliation of our GAAP net income to our estimated taxable income for the three and six months ended June 30, 2019 and 2018 (dollars in millions, except per share amounts):

38

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended June 30,** | | | | |  | **Six Months Ended June 30,** | | | |
|  |  | **2019** |  |  | **2018** |  |  | **2019** |  |  | **2018** |
| Net income | $ | (444) |  | $ | 293 |  | $ | (179) |  | $ | 717 |
| Estimated book to tax differences: |  |  |  |  |  |  |  |  |  |  |  |
| Premium amortization, net |  | 67 |  |  | (22) |  |  | 121 |  |  | (45) |
| Realized gain/loss, net |  | 886 |  |  | (221) |  |  | 1,513 |  |  | (873) |
| Net capital loss/(utilization of net capital loss carryforward) |  | 320 |  |  | 109 |  |  | 308 |  |  | 354 |
| Unrealized (gain)/loss, net |  | (644) |  |  | (46) |  |  | (1,363) |  |  | 62 |
| Other |  | (1) |  |  | — | |  | (10) |  |  | (14) |
| Total book to tax differences |  | 628 |  |  | (180) |  |  | 569 |  |  | (516) |
| Estimated REIT taxable income |  | 184 |  |  | 113 |  |  | 390 |  |  | 201 |
| Dividend on preferred stock |  | 13 |  |  | 9 |  |  | 23 |  |  | 18 |
| Estimated REIT taxable income available to common stockholders | $ | 171 |  | $ | 104 |  | $ | 367 |  | $ | 183 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Weighted average number of common shares outstanding - basic |  | 537.8 |  |  | 404.9 |  |  | 537.2 |  |  | 398.2 |
| Weighted average number of common shares outstanding - diluted |  | 538.4 |  |  | 405.2 |  |  | 537.8 |  |  | 398.4 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Estimated REIT taxable income per common share - basic | $ | 0.32 |  | $ | 0.26 |  | $ | 0.68 |  | $ | 0.46 |
| Estimated REIT taxable income per common share - diluted | $ | 0.32 |  | $ | 0.26 |  | $ | 0.68 |  | $ | 0.46 |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Beginning cumulative non-deductible net capital loss | $ | 170 |  | $ | 602 |  | $ | 182 |  | $ | 357 |
| Increase (decrease) in net capital loss carryforward |  | 320 |  |  | 109 |  |  | 308 |  |  | 354 |
| Ending cumulative non-deductible net capital loss | $ | 490 |  | $ | 711 |  | $ | 490 |  | $ | 711 |
| Ending cumulative non-deductible net capital loss per common share | $ | 0.89 |  | $ | 1.64 |  | $ | 0.89 |  | $ | 1.64 |
|  |  |  |  |  |  |  |  |  |  |  |  |

39

**LIQUIDITY AND CAPITAL RESOURCES**

Our primary sources of funds are borrowings under master repurchase agreements, asset sales, receipts of monthly principal and interest payments on our investment portfolio and equity offerings. We may also enter into TBA contracts to acquire or dispose of Agency RMBS and TBA dollar roll transactions to finance Agency RMBS purchases. Because the level of our borrowings can be adjusted daily, the level of cash and cash equivalents carried on our balance sheet is significantly less important than the potential liquidity available under our borrowing arrangements. Our leverage will vary periodically depending on market conditions and our assessment of risks and returns. We generally would expect our leverage to be within six to twelve times the amount of our tangible stockholders' equity. However, under certain market conditions, we may operate at leverage levels outside of this range for extended periods of time.

We currently believe that we have sufficient liquidity and capital resources available for the acquisition of additional investments, repayments on borrowings, maintenance of any margin requirements and the payment of cash dividends as required for our continued qualification as a REIT. We currently expect to distribute 100% of our taxable income so that we are not subject to U.S. federal and state corporate income taxes. Our REIT distribution requirement of at least 90% of our taxable income limits our ability to retain earnings and thereby replenish or increase capital from operations.

***Debt Capital***

As of June 30, 2019 and December 31, 2018, our mortgage borrowings consisted of the following (dollars in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **June 30, 2019** | | |  |  |  |  | **December 31, 2018** | | |  |  |
| **Mortgage Borrowings** |  |  | **Amount** |  |  | **%** |  |  |  | **Amount** |  |  | **%** |  |
| Repurchase agreements 1 | | $ | 85,116 |  |  |  | 89% |  | $ | 75,717 |  |  | 91% |  |
| Debt of consolidated variable interest entities, at fair value | |  | 251 |  |  |  | —% | |  | 275 |  |  | —% |  |
| Total debt | |  | 85,367 |  |  |  | 89% |  |  | 75,992 |  |  | 91% |  |
| Net TBA position, at cost | |  | 11,086 |  |  |  | 11% |  |  | 7,252 |  |  | 9% |  |
| Total mortgage borrowings | | $ | 96,453 |  |  |  | 100% |  | $ | 83,244 |  |  | 100% |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. Amount excludes $1,150 million of repurchase agreements used to fund purchases of U.S. Treasury securities as of June 30, 2019.

Our tangible net book value "at risk" leverage was 9.8x and 9.0x as of June 30, 2019 and December 31, 2018, respectively, measured as the sum of our total mortgage borrowings and net payable / (receivable) for unsettled investment securities, divided by the sum of our total stockholders' equity adjusted to exclude goodwill.

*Repurchase Agreements*

As part of our investment strategy, we borrow against our investment portfolio pursuant to master repurchase agreements. We expect that the majority of our borrowings under repurchase agreements will have maturities ranging up to one year but may have terms ranging up to five years or longer. Borrowings with maturities greater than one year typically have floating rates of interest based on LIBOR plus or minus a fixed spread.

As of June 30, 2019, we had $85.1 billion of repurchase agreements outstanding used to fund acquisitions of investment securities with a weighted average interest rate of 2.64% and a weighted average remaining days-to-maturity of 80 days, compared $75.7 billion, 2.79% and 49 days, respectively, as of December 31, 2018.

To limit our counterparty exposure, we diversify our funding across multiple counterparties and by counterparty region. As of June 30, 2019, we had master repurchase agreements with 47 financial institutions located throughout North America, Europe and Asia, including counterparties accessed through our wholly-owned captive broker-dealer subsidiary, Bethesda Securities, LLC ("BES"). BES has direct access to bilateral and triparty funding, including the General Collateral Finance Repo service offered by the Fixed Income Clearing Corporation, or "FICC," which provides us greater depth and diversity of funding at favorable terms relative to traditional bilateral repurchase agreement funding. As of June 30, 2019, $36.0 billion of our repurchase agreement funding was sourced through BES.

The table below includes a summary of our Agency RMBS repurchase agreement funding by number of repo counterparties and counterparty region as of June 30, 2019. For further details regarding our borrowings under repurchase agreements as of June 30, 2019, please refer to Notes 5 and 7 to our Consolidated Financial Statements in this Form 10-Q.

40

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **June 30, 2019** | | |  |
|  |  | **Number of Counter-** | | **Percent of** |  |
| **Counter-Party Region** |  | **Repurchase** |  |
| **Parties** |  | **Agreement Funding** |  |
| North America: | |  |  |  |  |
| FICC | | 1 |  | 40% |  |
| Other | | 27 |  | 40% |  |
| Total North America | | 28 |  | 80% |  |
| Europe | | 14 |  | 14% |  |
| Asia | | 5 |  | 6% |  |
| Total | | 47 |  | 100% |  |
|  |  |  |  |  |  |

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 at slightly less than market value. This haircut reflects the underlying risk of the specific collateral and protects our counterparty against a change in its value, but conversely subjects us to counterparty credit risk and limits the amount we can borrow against our investment securities. Our master repurchase agreements do not specify the haircut; rather haircuts are determined on an individual repurchase transaction basis. Throughout the six months ended June 30, 2019, haircuts on our pledged collateral remained stable and, as of June 30, 2019, our weighted average haircut was approximately 4.0% of the value of our collateral, inclusive of collateral funded through BES. As of June 30, 2019, our maximum amount at risk (or the excess of the value of collateral pledged over our repurchase liabilities) with any counterparty related to our repurchase agreements, excluding the FICC, was less than 4% of our tangible stockholders' equity, with our top five repo counterparties, excluding the FICC, representing less than 12% of our tangible stockholders' equity. As of June 30, 2019, approximately 9% of our tangible stockholder's equity was at risk with the FICC. We could be exposed to credit risk if the FICC or an FICC netting member defaults on its obligations. However, we believe that the risk is minimal due to the FICC's initial and daily mark-to-market margin requirements, guarantee funds and other resources that are available in the event of a default.

We may be required to pledge additional assets to our counterparties in the event the estimated fair value of the existing collateral pledged under our agreements declines and our counterparties demand additional collateral (a "margin call"), which may take the form of additional securities or cash. Specifically, margin calls would result from a decline in the fair value of our investment securities securing our repurchase agreements as well as due to prepayments on the mortgages securing such securities. Similarly, if the estimated fair value of our investment securities increases due to changes in interest rates or other factors, counterparties may release collateral back to us. Our repurchase agreements generally provide that the valuations of securities securing our repurchase agreements are to be obtained from a generally recognized source agreed to by the parties. In certain circumstances, however, our lenders have the sole discretion to determine the value of pledged collateral. 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 a margin call is made if the lender provides us notice prior to the margin notice deadline on such day.

As of June 30, 2019, we had met all of our margin requirements and we had unrestricted cash and cash equivalents of $0.9 billion and unpledged securities of approximately $4.4 billion, including securities pledged to us and unpledged interests in our consolidated VIEs, available to meet margin calls on our repurchase agreements and other funding liabilities, derivative instruments and for other corporate purposes.

Although we believe we will have adequate sources of liquidity available to us through repurchase agreement financing to execute our business strategy, there can be no assurances that repurchase agreement financing will be available to us upon the maturity of our current repurchase agreements to allow us to renew or replace our repurchase agreement financing on favorable terms or at all. If our repurchase agreement lenders default on their obligations to resell the underlying collateral back to us at the end of the term, we could incur a loss equal to the difference between the value of the collateral and the cash we originally received.

To help manage the adverse impact of interest rate changes on the value of our investment portfolio as well as our cash flows, we utilize an interest rate risk management strategy under which we use derivative financial instruments. In particular, we attempt to mitigate the risk of the cost of our variable rate liabilities increasing at a faster rate than the earnings of our long-term fixed rate assets during a period of rising interest rates. The primary derivative instruments that we use are interest rate swaps, interest rate swaptions, U.S. Treasury securities and U.S. Treasury futures contracts. Please refer to Notes 3 and 6 to our Consolidated Financial Statements in this Form 10-Q for further details regarding our use of derivative instruments.

41

As with repurchase agreements, our derivative agreements typically require that we pledge/receive collateral to/from our counterparties. Our counterparties, or the central clearing agency, typically have the sole discretion to determine the value of the derivative instruments and the value of the collateral securing such instruments. In the event of a margin call, we must provide additional collateral generally on the same or next business day. We minimize counterparty credit risk associated with our derivative instruments by limiting our counterparties to registered central clearing exchanges and major financial institutions with acceptable credit ratings and by monitoring positions with individual counterparties. Excluding centrally cleared derivative instruments, as of June 30, 2019, our amount at risk with any counterparty related to our interest rate swap and swaption agreements was less than 1% of our stockholders' equity. In the case of centrally cleared derivative instruments, we could be exposed to credit risk if the exchange or a central clearing member defaults on its obligations. However, we believe that the risk is minimal due to initial and daily mark-to-market margin requirements, guarantee funds and other resources that are available in the event of a default.

*TBA Dollar Roll Transactions*

TBA dollar roll transactions used to finance the purchase of Agency RMBS represent a form of off-balance sheet financing accounted for as derivative instruments. (See Notes 3 and 6 to our Consolidated Financial Statements in this Form 10-Q additional details on of our TBA transactions). 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. As of June 30, 2019, we had a net long TBA position with a total market value of $11.2 billion and a net carrying value of $84 million recognized in derivative assets/(liabilities), at fair value, on our Consolidated Balance Sheets in this Form 10-Q.

Our TBA dollar roll contracts are also subject to margin requirements governed by the Mortgage-Backed Securities Division ("MBSD") of the FICC and by our prime brokerage agreements, which may establish margin levels in excess of the MBSD. Such provisions require that we establish an initial margin based on the notional value of the TBA contract, which is subject to increase if the estimated fair value of our TBA contract or the estimated fair value of our pledged collateral declines. The MBSD has the sole discretion to determine the value of our TBA contracts and of the pledged collateral securing such contracts. In the event of a margin call, we must generally provide additional collateral on the same business day.

Settlement of our TBA obligations by taking delivery of the underlying securities as well as satisfying margin requirements could negatively impact our liquidity position. However, since we do not use TBA dollar roll transactions as our primary source of financing, we believe that we will have adequate sources of liquidity to meet such obligations.

***Bethesda Securities Regulatory Capital Requirements***

BES is subject to regulations of the securities business that include but are not limited to trade practices, capital structure, recordkeeping and conduct of directors, officers and employees. As a self-clearing registered broker-dealer, BES is required to maintain minimum net regulatory capital as defined by SEC Rule 15c3-1 (the "Rule"). As of June 30, 2019, the minimum net capital required was $0.3 million and BES had excess net capital of $604.2 million. Regulatory capital in excess of the minimum required by the Rule is held to meet levels required by clearing organizations, the clearing bank and other repo counterparties.

***Asset Sales and TBA Eligible Securities***

We maintain a portfolio of highly liquid mortgage-backed securities. We may sell our Agency securities through the TBA market by delivering them into TBA contracts, subject to "good delivery" provisions promulgated by Securities Industry and Financial Markets Association ("SIFMA"). We may alternatively sell Agency securities that have more unique attributes on a specified basis when such securities trade at a premium over generic TBA securities or if the securities are not otherwise eligible for TBA delivery. Since the TBA market is the second most liquid market (after the U.S. Treasury market), maintaining a significant level of Agency securities eligible for TBA delivery enhances our liquidity profile and provides price support for our TBA eligible securities at or above generic TBA prices. As of June 30, 2019, approximately 94% of our fixed rate Agency RMBS portfolio was eligible for TBA delivery.

***Equity Capital***

To the extent we raise additional equity capital, we may use cash proceeds from such transactions to purchase additional investment securities, to make scheduled payments of principal and interest on our funding liabilities and/or for other general corporate purposes. There can be no assurance, however, that we will be able to raise additional equity capital at any particular time or on any particular terms. Furthermore, when the trading price of our common stock is less than our estimate of our current tangible net book value per common share, among other conditions, we may repurchase shares of our common stock. Please refer to Notes 10 and 11 to our Consolidated Financial Statements in this Form 10-Q for further details regarding equity capital transactions.

42

**OFF-BALANCE SHEET ARRANGEMENTS**

As of June 30, 2019, we did not maintain relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance, or special purpose or variable interest entities, established to facilitate off-balance sheet arrangements or other contractually narrow or limited purposes. Additionally, as of June 30, 2019, we had not guaranteed obligations of unconsolidated entities or entered into a commitment or intent to provide funding to such entities.

**FORWARD-LOOKING STATEMENTS**

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on estimates, projections, beliefs and assumptions of our management as of the date of this Quarterly Report on Form 10-Q and involve risks and uncertainties in predicting future results and conditions. Our actual performance could differ materially from those projected or anticipated in any forward looking statements due to a variety of factors, including, without limitation, changes in interest rates, the yield curve or prepayment rates; the availability and terms of financing; changes in the market value of our assets; the effectiveness of our risk mitigation strategies; conditions in the market for Agency and other mortgage securities; or legislative or regulatory changes that affect our status as a REIT or our exemption from the Investment Company Act of 1940 or that affect the GSE’s or secondary mortgage market in which we participate. A discussion of risks and uncertainties that could cause actual results to differ from any of our forward-looking statements is included in our most recent Annual Report on Form 10-K and this document under Item 1A. *Risk Factors*. We caution readers not to place undue reliance on our forward-looking statements.

**Item 3. *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 and equity prices. The primary market risks that we are exposed to are interest rate, prepayment, spread, liquidity, extension and credit risk.

***Interest Rate Risk***

We are subject to interest rate risk in connection with the fixed income nature of our assets and the short-term, variable rate nature of our financing obligations. Our operating results depend in large part on differences between the income earned on our assets and our cost of borrowing and hedging activities. The costs associated with our borrowings are generally based on prevailing market interest rates. During a period of rising interest rates, our borrowing costs generally will increase while the yields earned on our existing portfolio of leveraged fixed-rate assets will largely remain static. This can result in a decline in our net interest spread. Changes in the level of interest rates can also affect the rate of mortgage prepayments and the value of our assets.

Interest rates are highly sensitive to many factors, including fiscal and monetary policies and domestic and international economic and political considerations, as well as other factors beyond our control. Subject to maintaining our qualification as a REIT, we engage in a variety of interest rate management techniques to mitigate the influence of interest rate changes on our net interest income and fluctuations of our tangible net book value. The principal instruments that we use to hedge our interest rate risk are interest rate swaps, swaptions, U.S. Treasury securities and U.S. Treasury futures contracts. Our hedging techniques are highly complex and are partly based on assumed levels of prepayments of our assets. If prepayments are slower or faster than assumed, the maturity our investments will also differ from our expectations, which could reduce the effectiveness of our hedging strategies and may cause losses on such transactions and adversely affect our cash flow.

The severity of potential declines in our tangible net book value due to fluctuations in interest rates would depend on our asset, liability and hedge composition at the time, as well as the magnitude and duration of the interest rate change. Primary measures of an instrument's price sensitivity to interest rate fluctuations are its duration and convexity. Duration measures the estimated percentage change in market value of an instrument that would be caused by a parallel change in short and long-term interest rates. The duration of our assets will vary with changes in interest rates and tends to increase when interest rates rise and decrease when interest rates fall. This "negative convexity" generally increases the interest rate exposure of our investment portfolio in excess of what is measured by duration alone.

We estimate the duration and convexity of our assets using both a third-party risk management system and market data. We review the duration estimates from the third-party model and may make adjustments based on our judgment to better reflect any unique characteristics and market trading conventions associated with certain types of securities.

The table below quantifies the estimated changes in the fair value of our investment portfolio (including derivatives and other securities used for hedging purposes) and in our tangible net book value per common share as of June 30, 2019 and December 31, 2018 should interest rates go up or down by 50 and 100 basis points, assuming instantaneous parallel shifts in the

43

yield curve and including the impact of both duration and convexity. All values in the table below are measured as percentage changes from the base interest rate scenario. The base interest rate scenario assumes interest rates and prepayment projections as of June 30, 2019 and December 31, 2018.

To the extent that these estimates or other assumptions do not hold true, which is likely in a period of high volatility, actual results could differ materially from our projections. Moreover, if different models were employed in the analysis, materially different projections could result. Lastly, while the table below reflects the estimated impact of interest rate changes on a static portfolio, we actively manage our portfolio and we continuously adjust the size and composition of our asset and hedge portfolio.

**Interest Rate Sensitivity 1,2**



|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **June 30, 2019** | | |  | **December 31, 2018** | | |  |
|  |  | **Estimated Change** | | **Estimated Change** | | **Estimated Change** | | **Estimated Change in** |  |
|  |  | **in Tangible Net** | | **Tangible Net Book** |  |
| **Change in Interest Rate** |  | **in Portfolio Market** | | **Book Value Per** | | **in Portfolio Market** | | **Value Per Common** |  |
| **Value** |  | **Common Share** |  | **Value** |  | **Share** |  |
| -100 Basis Points | | -1.0% |  | -11.7% |  | -0.7% |  | -7.3% |  |
| -50 Basis Points | | -0.3% |  | -3.9% |  | -0.1% |  | -1.0% |  |
| +50 Basis Points | | -0.1% |  | -1.4% |  | -0.3% |  | -3.1% |  |
| +100 Basis Points | | -0.7% |  | -8.6% |  | -0.9% |  | -9.3% |  |

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1. Derived from models that are dependent on inputs and assumptions provided by third parties, assumes there are no changes in mortgage spreads and assumes a static portfolio. Actual results could differ materially from these estimates.
2. Includes the effect of derivatives and other securities used for hedging purposes.

***Prepayment Risk***

Prepayment risk is the risk that our assets will be repaid at a faster rate than anticipated. Interest rates and numerous other factors affect the rate of prepayments, including housing prices, general economic conditions, loan age, size and loan-to-value ratios, and the pace of GSE buyouts of delinquent loans underlying our securities among other factors. Generally, prepayments increase during periods of falling mortgage interest rates and decrease during periods of rising mortgage interest rates. However, this may not always be the case.

If our assets prepay at a faster rate than anticipated, we may be unable to reinvest the repayments at acceptable yields. If the proceeds are reinvested at lower yields than our existing assets, our net interest income would be negatively impacted. We also amortize or accrete premiums and discounts we pay or receive at purchase relative to the stated principal of our assets into interest income over their projected lives using the effective interest method. If the actual and estimated future prepayment experience differs from our prior estimates, we are required to record an adjustment to interest income for the impact of the cumulative difference in the effective yield.

***Extension Risk***

Extension risk is the risk that our assets will be repaid at a slower rate than anticipated and generally increases when interest rates rise. In which case, we may have to finance our investments at potentially higher costs without the ability to reinvest principal into higher yielding securities because borrowers prepay their mortgages at a slower pace than originally expected, adversely impacting our net interest spread, and thus our net interest income.

As of June 30, 2019 and December 31, 2018, our investment securities (excluding TBAs) had a weighted average projected CPR of 12.4% and 7.9%, respectively, and a weighted average yield of 3.21% and 3.31%, respectively. The table below presents estimated weighted average projected CPRs and yields for our investment securities should interest rates go up or down by 50 and 100 basis points.

44

**Interest Rate Sensitivity 1**



|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **June 30, 2019** | | |  | **December 31, 2018** | | |  |
| **Change in Interest Rate** |  | **Weighted Average** | | **Weighted Average** | | **Weighted Average** | | **Weighted Average** |  |
| **Projected CPR** |  | **Asset Yield 2** |  | **Projected CPR** |  | **Asset Yield 2** |  |
| -100 Basis Points | | 21.6% |  | 2.88% |  | 14.1% |  | 3.15% |  |
| -50 Basis Points | | 17.0% |  | 3.03% |  | 10.3% |  | 3.25% |  |
| Actual as of Period End | | 12.4% |  | 3.21% |  | 7.9% |  | 3.31% |  |
| +50 Basis Points | | 8.9% |  | 3.29% |  | 6.5% |  | 3.33% |  |
| +100 Basis Points | | 6.9% |  | 3.35% |  | 5.7% |  | 3.38% |  |



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1. Derived from models that are dependent on inputs and assumptions provided by third parties and assumes a static portfolio. Actual results could differ materially from these estimates. Table excludes TBA securities.
2. Asset yield based on historical cost basis and does not include the impact of retroactive "catch-up" premium amortization adjustments due to changes in projected CPR.

***Spread Risk***

Spread risk is the risk that the market spread between the yield on our assets and the yield on benchmark interest rates linked to our interest rate hedges, such as U.S. Treasury rates and interest rate swap rates, may vary. The inherent spread risk associated with our investment securities 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 U.S. and foreign central banks, liquidity, or changes in required rates of return on different assets. Our strategies are generally not specifically designed to protect against spread risk, thus while we use interest rate swaps and other hedges to attempt to protect against moves in interest rates, our tangible net book value could decline if spreads widen.

The table below quantifies the estimated changes in the fair value of our assets, net of hedges, and our tangible net book value per common share as of June 30, 2019 and December 31, 2018 should spreads widen or tighten by 10 and 25 basis points. The estimated impact of changes in spreads is in addition to our interest rate shock sensitivity included in the interest rate shock table above. The table below assumes a spread duration of 4.4 and 5.6 years as of June 30, 2019 and December 31, 2018, respectively, based on interest rates and prices as of such dates. However, our portfolio's sensitivity of mortgage spread changes will vary with changes in interest rates and in the size and composition of our portfolio. Therefore, actual results could differ materially from our estimates.

**Spread Sensitivity 1,2**



|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **June 30, 2019** | | |  | **December 31, 2018** | | |  |
|  |  | **Estimated Change** | | **Estimated Change** | | **Estimated Change** | | **Estimated Change** |  |
|  |  | **in Tangible Net** | | **in Tangible Net** |  |
| **Change in MBS Spread** |  | **in Portfolio Market** | | **Book Value Per** | | **in Portfolio Market** | | **Book Value Per** |  |
| **Value** |  | **Common Share** |  | **Value** |  | **Common Share** |  |
| -25 Basis Points | | +1.1% |  | +12.5% |  | +1.4% |  | +14.3% |  |
| -10 Basis Points | | +0.4% |  | +5.0% |  | +0.6% |  | +5.7% |  |
| +10 Basis Points | | -0.4% |  | -5.0% |  | -0.6% |  | -5.7% |  |
| +25 Basis Points | | -1.1% |  | -12.5% |  | -1.4% |  | -14.3% |  |

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1. Spread sensitivity is derived from models that are dependent on inputs and assumptions provided by third parties, assumes there are no changes in interest rates and assumes a static portfolio. Actual results could differ materially from these estimates.
2. Includes the effect of derivatives and other securities used for hedging purposes.

***Liquidity Risk***

Our liquidity risk principally arises from financing long-term fixed rate assets with shorter-term variable rate borrowings. As of June 30, 2019, we had unrestricted cash and cash equivalents of $0.9 billion and unpledged securities of approximately $4.4 billion available to meet margin calls on our funding liabilities and derivative contracts and for other corporate purposes. However, should the value of our collateral or the value of our derivative instruments suddenly decrease, margin calls relating to our funding liabilities and derivative agreements could increase, causing an adverse change in our liquidity position. Furthermore, there is no assurance that we will always be able to renew (or roll) our short-term funding liabilities. In addition, our counterparties have the option to increase our haircuts (margin requirements) on the assets we pledge against our funding liabilities, thereby reducing the amount that can be borrowed against an asset even if they agree to renew or roll our funding liabilities. Significantly higher haircuts

45

can reduce our ability to leverage our portfolio or even force us to sell assets, especially if correlated with asset price declines or faster prepayment rates on our assets.

In addition, we often utilize TBA dollar roll transactions to invest in and finance Agency RMBS. Under certain conditions it may be uneconomical to roll our TBA dollar roll transactions beyond the next settlement date and we could have to take physical delivery of the underlying securities and settle our obligations for cash, which could negatively impact our liquidity position, result in defaults or force us to sell assets under adverse conditions.

***Credit Risk***

Our credit sensitive investments, such as CRT and non-Agency securities, expose us to the risk of nonpayment of principal, interest or other remuneration we are contractually entitled to. We are also exposed to credit risk in the event our repurchase agreement counterparties default on their obligations to resell the underlying collateral back to us at the end of the repo term or in the event our derivative counterparties do not perform under the terms of our derivative agreements.

We accept credit exposure related to our credit sensitive assets at levels we deem to be prudent within the context of our overall investment strategy. We attempt to manage this risk through prudent asset selection, pre-acquisition due diligence, post-acquisition performance monitoring, and the sale of assets where we identify negative credit trends. We may also manage credit risk with credit default swaps or other financial derivatives that we believe are appropriate. Additionally, we may vary the mix of our interest rate and credit sensitive assets or our duration gap to adjust our credit exposure and/or improve the return profile of our assets, such as when we believe credit performance is inversely correlated with changes in interest rates. Our credit risk related to derivative and repurchase agreement transactions is largely mitigated by limiting our counterparties to major financial institutions with acceptable credit ratings or to registered central clearinghouses and monitoring concentration levels with any one counterparty. We also monitor and adjust the amount of collateral pledged based on changes in market value.

There is no guarantee that our efforts to manage credit risk will be successful and we could suffer losses if credit performance is worse than our expectations or our counterparties default on their obligations. Excluding amounts cleared through a central clearing exchange, as of June 30, 2019, our maximum amount at risk with any counterparty related to our repurchase agreements was less than 4% of our tangible stockholders' equity and less than 1% of tangible stockholders' equity related to our interest rate swap and swaption agreements.

46

**Item 4. *Controls and Procedures***

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934, as amended (the "Exchange Act") reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based on the definition of "disclosure controls and procedures" as promulgated under the Exchange Act and the rules and regulations thereunder. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2019. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

***Changes in Internal Control over Financial Reporting***

There have been no changes in our "internal control over financial reporting" (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. *Legal Proceedings***

AGNC is a named party to three stockholder derivative lawsuits filed against certain of our current and former directors and officers, and ACAS, LLC (f/k/a American Capital, Ltd.) and certain of its affiliates as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018. To avoid the ongoing costs and burdens of litigation and without admitting liability or wrongdoing, on June 11, 2019, the named defendants reached an agreement with the plaintiff in the matter called *H&N Management Group & Aff Cos. Frozen Money Pension Plan v. Couch, et al.,* pending in the Chancery Court for the State of Delaware (the “Delaware Court”), to settle the claims against them pursuant to the Stipulation and Agreement of Compromise, Settlement and Release filed with the Delaware Court (the “Stipulation”). The Stipulation provides for an aggregate payment of $35.5 million to the Company on behalf of all defendants, which will be reduced by, among other things, any amounts awarded by the Delaware Court for plaintiff attorneys fees. The Stipulation also provides for a release from liability of the Company and the defendants and certain of their respective affiliates. The settlement is subject to, among other things, final approval by the Delaware Court and dismissal with prejudice of the other stockholder derivative litigation pending in the United States District Court for the District of Maryland. The Delaware Court has set a final approval hearing for October 15, 2019. The above description of the Stipulation is qualified in its entirety by reference to the Stipulation and the Amended Notice of Pendency of Derivative Action, Proposed Settlement of Derivative Action, Settlement Hearing and Right to Appear, each of which is available on the investors page of our website at: ir.agnc.com.

**Item 1A. *Risk Factors***

There have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31,

2018.

**Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds***

None.

**Item 3. *Defaults upon Senior Securities***

None.

**Item 4. *Mine Safety Disclosures***

Not applicable.

**Item 5. *Other Information***

None.

47

**Item 6.** ***Exhibits and Financial Statement Schedules***

(a) Exhibit Index

**Exhibit No.** **Description**

[\*3.1 AGNC Investment Corp. Amended and Restated Certificate of Incorporation, as amended, incorporated herein by reference](http://www.sec.gov/Archives/edgar/data/1423689/000142368918000016/agncexhibit313311810-q.htm) [to Exhibit 3.1 of Form 10-Q for the quarter ended March 31, 2018 (File No. 001-34057), filed May 7, 2018.](http://www.sec.gov/Archives/edgar/data/1423689/000142368918000016/agncexhibit313311810-q.htm)

[\*3.2 AGNC Investment Corp. Third Amended and Restated Bylaws, as amended, incorporated herein by reference to Exhibit 3.2](http://www.sec.gov/Archives/edgar/data/1423689/000142368916000104/agncexhibit329301610-qbyla.htm) [of Form 10-Q for the quarter ended September 30, 2016 (File No. 001-34057), filed November 7, 2016.](http://www.sec.gov/Archives/edgar/data/1423689/000142368916000104/agncexhibit329301610-qbyla.htm)

[\*3.3 Certificate of Designations of 7.750% Series B Cumulative Redeemable Preferred Stock, incorporated herein by reference](http://www.sec.gov/Archives/edgar/data/1423689/000142368914000023/exh34certificateofdesignat.htm) [to Exhibit 3.4 of Form 8-A (File No. 001-34057), filed May 7, 2014.](http://www.sec.gov/Archives/edgar/data/1423689/000142368914000023/exh34certificateofdesignat.htm)

[\*3.4 Certificate of Designations of 7.00% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock,](http://www.sec.gov/Archives/edgar/data/1423689/000142368917000044/ex35certificateofdesignati.htm) [incorporated herein by reference to Exhibit 3.5 of Form 8-A (File No. 001-34057), filed August 18, 2017.](http://www.sec.gov/Archives/edgar/data/1423689/000142368917000044/ex35certificateofdesignati.htm)

[\*3.5 Certificate of Elimination of 8.000% Series A Cumulative Redeemable Preferred Stock, incorporated herein by reference to](http://www.sec.gov/Archives/edgar/data/1423689/000142368917000065/certificateofelimination.htm) [Exhibit 3.1 of Form 8-K (File No 001-34057), filed October 26, 2017.](http://www.sec.gov/Archives/edgar/data/1423689/000142368917000065/certificateofelimination.htm)

[\*3.6 Certificate of Designations of 6.875% Series D Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock,](http://www.sec.gov/Archives/edgar/data/1423689/000142368919000019/certificateofdesignations.htm) [incorporated herein by reference to Exhibit 3.5 of Form 8-A (File No 001-34057), filed March 6, 2019.](http://www.sec.gov/Archives/edgar/data/1423689/000142368919000019/certificateofdesignations.htm)

[\*4.1 Instruments defining the rights of holders of securities: See Article IV of our Amended and Restated Certificate of](http://www.sec.gov/Archives/edgar/data/1423689/000142368918000016/agncexhibit313311810-q.htm) [Incorporation, as amended, incorporated herein by reference to Exhibit 3.1 of Form 10-Q for the quarter ended March 31, 2018 (File No.](http://www.sec.gov/Archives/edgar/data/1423689/000142368918000016/agncexhibit313311810-q.htm) [001-34057) filed May 7, 2018.](http://www.sec.gov/Archives/edgar/data/1423689/000142368918000016/agncexhibit313311810-q.htm)

[\*4.2 Instruments defining the rights of holders of securities: See Article VI of our Third Amended and Restated Bylaws, as](http://www.sec.gov/Archives/edgar/data/1423689/000142368916000104/agncexhibit329301610-qbyla.htm) [amended, incorporated herein by reference to Exhibit 3.2 of Form 10-Q for the quarter ended September 30, 2016 (File No. 001-34057)](http://www.sec.gov/Archives/edgar/data/1423689/000142368916000104/agncexhibit329301610-qbyla.htm) [filed November 7, 2016.](http://www.sec.gov/Archives/edgar/data/1423689/000142368916000104/agncexhibit329301610-qbyla.htm)

[\*4.3 Form of Certificate for Common Stock, incorporated herein by reference to Exhibit 4.3 of Form 10-Q for the quarter ended](http://www.sec.gov/Archives/edgar/data/1423689/000142368916000104/agncexhibit43.htm) [September 30, 2016 (File No. 001-34057), filed November 7, 2016.](http://www.sec.gov/Archives/edgar/data/1423689/000142368916000104/agncexhibit43.htm)

[\*4.4](http://www.sec.gov/Archives/edgar/data/1423689/000142368914000023/agncspecimenseriesbcumul.htm) [Specimen 7.750% Series B Cumulative Redeemable Preferred Stock Certificate, incorporated herein by reference to Exhibit](http://www.sec.gov/Archives/edgar/data/1423689/000142368914000023/agncspecimenseriesbcumul.htm)

[4.1 of Form 8-A (File No. 001-34057), filed May 7, 2014.](http://www.sec.gov/Archives/edgar/data/1423689/000142368914000023/agncspecimenseriesbcumul.htm)

[\*4.5 Specimen 7.00% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock Certificate, incorporated herein](http://www.sec.gov/Archives/edgar/data/1423689/000142368917000044/exhibit41.htm) [by reference to Exhibit 4.1 of Form 8-A (File No. 001-34057), filed August 18, 2017.](http://www.sec.gov/Archives/edgar/data/1423689/000142368917000044/exhibit41.htm)

[\*4.6 Specimen 6.875% Series D Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock Certificate, incorporated herein](http://www.sec.gov/Archives/edgar/data/1423689/000142368919000019/stockcertificateb98.htm) [by reference to Exhibit 4.1 of Form 8-A (File No. 001-34057), filed March 6, 2019.](http://www.sec.gov/Archives/edgar/data/1423689/000142368919000019/stockcertificateb98.htm)

[\*4.7Deposit Agreement relating to 7.750% Series B Cumulative Redeemable Preferred Stock, dated May 8, 2014, among](http://www.sec.gov/Archives/edgar/data/1423689/000142368914000026/exhibit42depositagreement.htm) [American Capital Agency Corp., Computershare Inc. and Computershare Trust Company, N.A., jointly as depositary, incorporated herein](http://www.sec.gov/Archives/edgar/data/1423689/000142368914000026/exhibit42depositagreement.htm) [by reference to Exhibit 4.2 of Form 8-K (File No. 001-34057), filed May 8, 2014.](http://www.sec.gov/Archives/edgar/data/1423689/000142368914000026/exhibit42depositagreement.htm)

[\*4.8 Form of Depositary Receipt representing 1/1,000th of a share of 7.750% Series B Cumulative Redeemable Preferred Stock](http://www.sec.gov/Archives/edgar/data/1423689/000142368914000026/exhibit42depositagreement.htm) [(included as part of Exhibit 4.7), incorporated herein by reference to Exhibit A of Exhibit 4.2 of Form 8-K (File No. 001-34057), filed May](http://www.sec.gov/Archives/edgar/data/1423689/000142368914000026/exhibit42depositagreement.htm) [8, 2014.](http://www.sec.gov/Archives/edgar/data/1423689/000142368914000026/exhibit42depositagreement.htm)

[\*4.9Deposit Agreement relating to 7.00% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, dated August](http://www.sec.gov/Archives/edgar/data/1423689/000142368917000049/depositagreement.htm) [22, 2017, among AGNC Investment Corp., Computershare Inc. and Computershare Trust Company, N.A., jointly as depositary,](http://www.sec.gov/Archives/edgar/data/1423689/000142368917000049/depositagreement.htm) [incorporated herein by reference to Exhibit 4.2 of Form 8-K (File No. 001-34057) filed August 22, 2017.](http://www.sec.gov/Archives/edgar/data/1423689/000142368917000049/depositagreement.htm)

[\*4.10 Form of Depositary Receipt representing 1/1,000th of a share of 7.00% Series C Fixed-to-Floating Rate Cumulative](http://www.sec.gov/Archives/edgar/data/1423689/000142368917000049/depositagreement.htm) [Redeemable Preferred Stock (included as part of Exhibit 4.9), incorporated herein by reference to Exhibit A of Exhibit 4.2 of Form 8-K](http://www.sec.gov/Archives/edgar/data/1423689/000142368917000049/depositagreement.htm) [(File No. 001-34057) filed August 22, 2017.](http://www.sec.gov/Archives/edgar/data/1423689/000142368917000049/depositagreement.htm)

48

[\*4.11 Deposit Agreement relating to 6.875% Series D Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, dated](http://www.sec.gov/Archives/edgar/data/1423689/000142368919000021/prefddepositagmt.htm) [March 6, 2019, among AGNC Investment Corp., Computershare Inc. and Computershare Trust Company, N.A., jointly as depositary,](http://www.sec.gov/Archives/edgar/data/1423689/000142368919000021/prefddepositagmt.htm) [incorporated herein by reference to Exhibit 4.2 of Form 8-K (File No. 001-34057) filed March 6, 2019.](http://www.sec.gov/Archives/edgar/data/1423689/000142368919000021/prefddepositagmt.htm)

[\*4.12Form of Depositary Receipt representing 1/1,000th of a share of 6.875% Series D Fixed-to-Floating Rate Cumulative](http://www.sec.gov/Archives/edgar/data/1423689/000142368919000021/prefddepositagmt.htm) [Redeemable Preferred Stock (included as part of Exhibit 4.11), incorporated herein by reference to Exhibit A of Exhibit 4.2 of Form 8-K](http://www.sec.gov/Archives/edgar/data/1423689/000142368919000021/prefddepositagmt.htm) [(File No. 001-34057) filed March 6, 2019.](http://www.sec.gov/Archives/edgar/data/1423689/000142368919000021/prefddepositagmt.htm)

[\* 10 Form of Indemnification Agreement, incorporated herein by reference to Exhibit 10.1 of Form 8-K (File No. 001-34057),](http://www.sec.gov/Archives/edgar/data/1423689/000142368919000036/a101indem.htm) [filed April 19, 2019.](http://www.sec.gov/Archives/edgar/data/1423689/000142368919000036/a101indem.htm)

14 [AGNC Investment Corp. Code of Ethics and Conduct, adopted July 18, 2019, filed herewith.](#page52)

[31.1](#page63) [Certification of CEO Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.](#page63)

[31.2](#page64) [Certification of CFO Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.](#page64)

32 [Certification of CEO and CFO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#page65)

101.INS\*\*

The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document

101.SCH\*\*

XBRL Taxonomy Extension Schema Document

101.CAL\*\*

XBRL Taxonomy Extension Calculation Linkbase Document

101.LAB\*\*

XBRL Taxonomy Extension Labels Linkbase Document

101.PRE\*\*

XBRL Taxonomy Extension Presentation Linkbase Document

101.DEF\*\*

XBRL Taxonomy Extension Definition Linkbase Document

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\* Previously filed

* This exhibit is being furnished rather than filed, and shall not be deemed incorporated by reference into any filing, in accordance with Item 601 of
* Management contract or compensatory plan or arrangement
  1. Exhibits

See the exhibits filed herewith.

* 1. Additional financial statement schedules None.

49

**SIGNATURES**

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

AGNC INVESTMENT CORP.

By: /s/ GARY D. KAIN



**Gary D. Kain**

**Chief Executive Officer and**

**Chief Investment Officer (Principal Executive Officer)**

Date: August 5, 2019

By: /s/ BERNICE E. BELL



**Bernice E. Bell**

**Senior Vice President and**

**Chief Financial Officer (Principal Financial Officer and Principal Accounting**

**Officer)**

Date: August 5, 2019

50

Exhibit 14

**AGNC INVESTMENT CORP. CODE OF ETHICS AND CONDUCT**

**Adopted: July 18, 2019**

1. **INTRODUCTION**

AGNC Investment Corp. (“AGNC”) has adopted this Code of Ethics and Conduct to communicate to all AGNC people the ethical and legal standards that we expect you to observe when dealing with AGNC, your AGNC colleagues, and others with whom we do business.

Throughout this Code, we use the terms “AGNC people,” “you” and “your” to refer to all of AGNC’s and its subsidiaries’ directors, executive officers, employees and independent contractors, and the terms “AGNC,” the “company,” “we” and “our” to refer to AGNC and its subsidiaries. We use the term “Code” to refer to this document, as it may be amended from time to time.

We expect all AGNC people to act ethically and obey the law. When you encounter ethical or legal issues where you are not certain about the correct course of action, you should use principles described in this Code as guideposts in deciding how to proceed. We have adopted this Code to give you guidance for resolving these ethical and legal issues. In particular, this Code addresses the following general topics:

* + Observing all laws and regulations
  + Avoiding conflicts of interest
  + Maintaining accurate and complete company records
  + Protecting confidential information

Because rapid changes in our industry and in the law constantly present new issues, we cannot create guidelines that address all circumstances or constitute the definitive answer on any question. When you are in doubt about the correct or best course of action, or have questions about the Code, you should always consider consulting your supervisor, the Chief Compliance Officer of the company (the “Chief Compliance Officer”) or the Legal team for guidance.

We firmly believe that a strong commitment to ethical and legal conduct is essential for us successfully to achieve our purpose and vision. We therefore require all AGNC people to comply with this Code. To help ensure this compliance, we have established a procedure for reporting suspected violations of this Code. Any violations of this Code may result in disciplinary action, including termination of employment or contract, as applicable. These matters are described in more detail at the end of this Code.

1. **OBSERVING ALL LAWS, RULES AND REGULATIONS**
   1. **GENERALLY**

We expect you to comply with all applicable local, state and federal laws, rules and regulations, both domestic and international, and refrain from illegal, dishonest or unethical conduct. Although laws, rules and regulations may sometimes be ambiguous and difficult to interpret, we expect you to make a good-faith effort to follow both the letter and the spirit of the law.

In addition, we expect you to comply with all AGNC policies and procedures that apply to you. These include, but are not limited to, our policies on securities trading, political contributions, equal opportunity, harassment, drug-free workplace, computer usage and information technology, data protection and expense reimbursement and travel, as well as our internal financial controls and procedures. We may modify or update these policies and procedures in the future and adopt new company policies and procedures from time to time. You are also expected to observe the terms of any confidentiality agreement, employment agreement, consulting agreement or other similar agreement that applies to you. If you previously signed one of these agreements with AGNC, it remains in full force and effect.

1. **BRIBES AND KICKBACKS**

Bribery is illegal and subject to criminal penalties in the United States and many other countries. Bribery is forbidden under the U.S. Foreign Corrupt Practices Act (the “FCPA”), which is described in more detail in Section B.3 of this Code, and other laws, rules and regulations. You may not give any bribes, kickbacks or other similar considerations to any person or organization to attract business. All decisions regarding the investing of our assets or the purchasing of goods and services must be made on the basis of applicable investment or acquisition criteria, and in a way that preserves AGNC’s integrity.

Fees, commissions or other amounts paid to outside consultants, agents or other third parties must be fully disclosed in our investment process or otherwise to our Chief Compliance Officer and must be legal, proper and reasonable in relation to customary commercial practice. Payments to these persons should never be used to accomplish indirectly what AGNC could not properly or legally do directly.

You should also be familiar with, and observe, the provisions of Section C.3 of this Code relating to Gifts, Gratuities and Entertainment, because the giving or receiving of such items could constitute an illegal bribe or kickback under certain circumstances.

1. **POLITICAL ACTIVITY**

We do not make contributions or payments that could be considered a contribution to political parties or candidates or to intermediary organizations such as political action committees. However, you are free to exercise your right to make personal political contributions within legal limits, except to the extent these contributions are otherwise prohibited or restricted by other AGNC policies. You should not make these contributions in a way that might appear to be an endorsement or contribution by AGNC. You should be certain that you understand, and are complying with, all such laws, rules and regulations before making any political contributions. We will not reimburse you for political contributions in any way.

1. **ANTITRUST**

Antitrust laws generally prohibit agreements or actions that restrain trade or reduce competition. The free enterprise system rests on the notion that free and open competition is the best way to ensure an adequate supply of products and services at reasonable prices. We expect you to adhere to both the spirit and the letter of the antitrust laws of the United States and with all applicable antitrust laws governing competition in any country in which AGNC does business. Violation of antitrust laws can result in severe civil and criminal penalties, including imprisonment for individuals, and AGNC can be subjected to substantial fines and damage awards.

* 1. **Agreements with Competitors**

The following agreements, arrangements or understandings between AGNC and its competitors (whether oral or in writing) should be avoided:

* + - Agreements that affect the price or other terms or conditions of sale of products or the terms on which we invest;
    - Agreements regarding the companies in which AGNC or its managed companies will, or will not, invest or sell or provide services;
    - Agreements to refuse to invest in or sell to particular businesses or to refuse to buy from particular businesses; and
    - Agreements that limit the types of investments that AGNC will make.

Contacts with our competitors are sensitive and risky, because courts can infer an agreement or collusion from these contacts when they are followed by common action or behavior. We recognize that we may need to work with our competitors in the regular course of our business. In all contacts with our competitors, you are expected to avoid discussing prices, costs, competition, division of markets, marketing plans or studies, or any other proprietary or confidential information.

If any competitor initiates a discussion with you involving the subjects above, you should immediately excuse yourself from the conversation and report the matter to the Chief Compliance Officer or a member of the Legal team.

1. **SECURITIES LAWS AND INSIDER TRADING**

The U.S. federal securities laws are built on the premise that a purchaser and a seller of securities should have equal access to important information regarding the company whose securities they are trading. Consequently, federal securities laws forbid an investor from purchasing or selling securities based upon inside information not available to the other party.

The consequences of insider trading violations can be severe. AGNC people who trade on inside information, or who communicate (or tip) this information to others so that they may trade, may face a civil penalty of up to three times the profit gained (or loss avoided), a substantial criminal fine and a jail term of up to ten years. Additionally, if we or our senior officers do not take appropriate steps to prevent AGNC people from insider trading, we may also face severe legal consequences, including, among other things, substantial criminal penalties.

* 1. **Policy Statement**

AGNC people who have material, nonpublic (i.e., inside) information about AGNC should not buy or sell AGNC securities (including derivative securities such as put and call options) until a reasonable time after the inside information has been publicly disclosed. You also should not disclose inside information to others outside AGNC until a reasonable time after the information has been publicly disclosed. In addition, it is never appropriate for you to advise others to buy or sell AGNC securities.

We further believe that it is highly inappropriate for any AGNC person to sell short AGNC stock or engage in other transactions where the person will earn a profit based on a decline in AGNC’s stock price.

These rules also apply to the use of material, nonpublic information about other companies (including, for example, our clients, competitors and potential business partners).

In addition to you, these rules apply to your spouse, children and any other family members living with you in your household.

* 1. **Further Explanation**
     1. **What is inside information?** Inside information is material information about an entity, including AGNC, thathas not been publicly disclosed. For instance, this information could relate to AGNC’s investments, financial condition, earnings or business, or to any important development in which we may be involved.
     2. **What information is material?** Information is material if it is information that a reasonable investor mightconsider important in deciding whether to buy, sell or hold securities. Examples of information that may be material include: financial results or forecasts; a significant proposed acquisition or sale of a business; a stock split; significant litigation; and changes in customary earnings trends.
     3. **What information is nonpublic?** Information is nonpublic until the time it has been effectively disclosed tothe public. Effective disclosure generally occurs when information is included in a press release, is revealed during a conference call to which the general public has been invited to participate or is included in our public filings with the U.S. Securities and Exchange Commission. Under certain circumstances, effective disclosure may occur by other means.
     4. **What is a reasonable waiting period before purchases and sales can be made?** The investing public musthave sufficient time to analyze the information that has been disclosed before those possessing previously nonpublic information can trade.

For matters disclosed in an AGNC press release or conference call, a good rule of thumb is that purchases and sales can be made beginning 24 hours after the disclosure.

* + 1. **What transactions are prohibited?** An AGNC person who has inside information about AGNC or anothercompany is prohibited from: (a) trading in AGNC’s or the other company’s securities (including derivative securities such as put and call options); (b) having others trade in AGNC’s or the other company’s securities for your benefit; and (c) disclosing the inside information to (or tipping) anyone else who might then trade. These prohibitions continue for as long as the information remains material and nonpublic.
    2. **What transactions are allowed?** An AGNC person who has inside information about AGNC may,nonetheless, usually exercise AGNC stock options for cash (but may not sell the option shares he or she receives upon the exercise). These cash option exercise purchases are allowed because the other party to the transactions is AGNC itself, and because the option exercise purchase price does not vary with the market, but, rather, is fixed in advance under the terms of the option plan. Additionally, certain transactions that occur under an automatic investment plan, such as a dividend reinvestment plan or a company approved Rule 10b5-1 plan, if any, are permitted in such circumstances. You should contact the Chief Compliance Officer or a member of our Legal team with any questions.
  1. **Blackout Period for Trading in AGNC Securities**

In addition to our general Insider Trading Policy, which is summarized above, we may institute from time to time blackout periods during which AGNC persons will be precluded from trading in AGNC securities (including derivative securities such as put and call options). The Chief Compliance Officer will typically be responsible for implementing such practices.

1. **HARASSMENT AND DISCRIMINATION**

We are committed to providing a supportive work environment that is free from harassment and discrimination of any kind. To this end, AGNC has adopted an Anti-Harassment Policy and an Equal Employment Opportunity policy, copies of which are included in the Policy Booklet distributed to all AGNC employees. AGNC will not tolerate discrimination or harassment of employees or non-employees with whom we have a business, service or professional relationship. AGNC people are encouraged to report any acts of harassment or discrimination to the Chief Compliance Officer, the Chair of the Compensation and Corporate Governance Committee of the Board of Directors or to the hotline.

1. **HEALTH AND SAFETY**

We strive to provide AGNC people with a safe and healthy work environment. You have a responsibility for maintaining a safe and healthy workplace for all other AGNC people by following safety and health rules and practices and reporting accidents, injuries and unsafe equipment, practices and conditions.

Violence and threatening behavior are not permitted and will not be tolerated. If any AGNC person knows of actual or potential workplace violence or threatening behavior, he/she should immediately report such concerns to his or her manager, a member of the Human Resources or Legal Departments, the Chief Compliance Officer or the hotline.

All AGNC people are expected to conduct AGNC business free from the influence of any substance that could impair job performance. This includes alcohol, illegal drugs, controlled substances and, in certain instances, prescription medication. The use, sale and/or distribution of illegal drugs in the workplace will not be tolerated at any time.

1. **INTERNATIONAL ISSUES**

You are expected to comply with the legal requirements and ethical standards of each country in which you conduct AGNC business, as well as with all U.S. laws applicable in other countries.

The FCPA applies to business transactions both inside the United States and in other countries. Its requirements relate to accurate and complete financial books and records, transactions with foreign government officials and restrictions on the use of funds for unlawful or improper purposes. Because violation of the FCPA can bring severe penalties, including criminal fines for the company and individuals and jail terms, it is essential that you become familiar with the FCPA’s requirements if you are involved in investment transactions or other business in a foreign country. Other legal requirements may affect our international business or transactions. These include, but are not limited to, laws, rules and regulations prohibiting money laundering and transactions with specifically designated nationals subject to government sanctions, which are covered by our Anti-Money Laundering Policy. If you have any questions regarding legal requirements applicable to international business or transactions, please contact a member of our Legal team.

1. **AVOIDING CONFLICTS OF INTEREST**
   1. **GENERALLY**

All AGNC people have a duty of loyalty to act in the best interests of the company. We expect you to avoid situations and relationships that involve actual or potential conflicts of interest. Generally, a conflict of interest arises whenever your personal interests diverge from your responsibilities to AGNC or from AGNC’s best interests. Put another way, a conflict of interest is created whenever an activity, association or relationship of yours might impair your independent exercise of judgment in AGNC’s best interest.

Examples of situations that could be perceived as conflicts of interest and should be avoided include:

* + - Conducting AGNC’s business with a company owned, partially owned or controlled by you or a member of your family;
    - Ownership of more than one percent of the stock of a company that competes or does business with AGNC (other than indirect ownership as a result of owning a widely-held mutual fund);
    - Working as an employee or a consultant for a competitor, regulatory government entity, investment company or supplier of AGNC (other than as part of your AGNC employment);
    - Doing any work for a third party that may adversely affect your performance or judgment on the job or diminish your ability to devote the necessary time and attention to your duties; and
    - Appropriating or diverting to yourself or others any business opportunity or idea in which AGNC might have an

interest.

These situations (and others like them), where your loyalties to AGNC could be compromised, must be avoided. If you believe that you are involved in a potential conflict of interest, we expect you to discuss it with your supervisor or the Chief Compliance Officer. If a conflict is determined to exist, you must disengage from the conflict situation or terminate your employment.

1. **USE OF OUR ASSETS**

You are responsible for the proper use of AGNC’s physical resources and property, as well as its proprietary information.

Our offices, equipment, supplies and other resources may not be used for activities that are not related to your employment with AGNC, except for any activities that have been approved in writing in advance by us, or for personal usage that is minor in amount and reasonable. If you are found to be engaging in, or attempting, theft of any AGNC property, including documents, equipment, intellectual property, personal property of other employees, cash or any other items of value, you may be subject to immediate termination of your employment or contract and possible criminal proceedings. We expect you to report any theft or attempted theft to your supervisor or the Chief Compliance Officer.

Proprietary words, slogans, symbols, logos or other devices used to identify AGNC and its proprietary methods and services are important business tools and valuable assets, which require care in their use and treatment. You may not negotiate or enter into any agreement respecting AGNC’s trademarks, service marks or logos without first consulting a member of our Legal team. We also respect the intellectual property rights of others. Thus, using the trademark or service mark of, or referencing for marketing purposes, another company (even one with whom AGNC has a business relationship), requires clearance or approval by our Legal team, to determine whether the use of that other company’s mark is proper. You should avoid the unauthorized use of copyrighted or patented materials of others and should ask a member of the Legal team if you have any questions regarding the permissibility of photocopying, excerpting, electronically copying or otherwise using copyrighted or patented materials. In addition, simply because material is available for copying (such as content or images downloaded from the internet) does not mean that it is automatically legal or permissible to copy or distribute.

1. **GIFTS, GRATUITIES AND ENTERTAINMENT**
   1. **Giving**

You may not offer money, gifts or other items or services of value to anyone with whom we do business or potentially would do business for the purpose of securing an investment opportunity or contract or obtaining favorable treatment. Business-connected favors or gifts may not be extended unless they:

* + - Are consistent with customary business practices;
    - Do not have substantial monetary value and would not be viewed as improper by others; and
    - Do not violate applicable laws, rules or regulations.

Business entertainment in the form of meals and beverages may be offered only if these activities and related expenses are modest and infrequent. Other forms of entertainment (such as tickets to sporting, civic or cultural events) are allowed only if reasonable, customary and not excessive.

1. **Receiving**

To avoid even the implication of impropriety, you should decline any gift, favor, entertainment or anything else of value from current or prospective intermediaries, clients, suppliers or contractors or their representatives except for:

* + Gifts that do not have substantial monetary value given at holidays or other special occasions;
  + Reasonable entertainment at lunch, dinner or business meetings where the return of the expenditure on a reciprocal basis is likely to occur and would be properly chargeable as a business expense; or
  + Other routine entertainment that is business-related such as sports outings or cultural events, but only if such is otherwise acceptable under this Code and is reasonable, customary and not excessive.

In the event that you receive any gift or entertainment with a fair market value in excess of $200, you must promptly report it to your supervisor and/or such other person as may be designated by the Chief Compliance Officer. Executive officers must report such gifts or entertainment in writing, on a periodic basis, to the Audit Committee of the Board of Directors (the “Audit Committee”).

Ultimately, you must exercise good business judgment in deciding which situations are unacceptable. If there is ever any doubt as to the acceptability of any entertainment activity, consult with your supervisor or our Chief Compliance Officer.

1. **MAINTAINING ACCURATE AND COMPLETE COMPANY RECORDS**

1.**ACCOUNTING AND FINANCIAL RECORDS**

We are required under U.S. federal securities laws and generally accepted accounting principles to keep books, records and accounts that accurately reflect all transactions and to provide an adequate system of internal accounting and controls. We expect you to ensure that those portions of our books, records and accounts for which you have responsibility are valid, complete, accurate and supported by appropriate documentation in verifiable form.

You should not:

* Improperly accelerate or defer expenses or revenues to achieve financial results or goals;
* Deviate from any accounting standards applicable to AGNC or otherwise;
* Participate in the valuation of any of our assets at a value other than that required by law;
* Maintain any undisclosed or unrecorded funds or off the book assets;
* Establish or maintain improper, misleading, incomplete or fraudulent accounting documentation or financial reporting;
* Make any payment for purposes other than those described in the documents supporting the payment;
* Submit or approve any expense report where you know or suspect that any portion of the underlying expenses were not incurred or are not accurate; or
* Sign any documents believed to be inaccurate or untruthful.

AGNC people who exercise supervisory duties over our assets or records are expected to establish and implement appropriate internal controls over all areas of their responsibility. This will help ensure the safeguarding of AGNC’s assets and the accuracy of our financial records and reports. We have adopted and will continue to adopt various types of internal controls and procedures as required to meet internal needs and applicable laws and regulations. We expect you to follow these controls and procedures to the extent they apply to you, to assure the complete and accurate recording of all transactions.

Any accounting entries or adjustments that materially depart from generally accepted accounting principles must be approved by our Audit Committee and reported to our independent auditors. You must not interfere with or seek to influence improperly (directly or indirectly) the review or auditing of our financial records by our Audit Committee or independent auditors.

If you become aware of any questionable transaction or accounting practice concerning AGNC, our investments or our other assets, we expect you to report the matter immediately to our Chief Compliance Officer or to a member of our Audit Committee. In addition, we expect you to report all material off-balance-sheet transactions, arrangements and obligations, contingent or otherwise, and other AGNC relationships outside the ordinary course of business with unconsolidated entities or other persons that may have material current or future effects on our financial condition or results of operations to our Chief Compliance Officer or to a member of our Audit Committee.

Section F.2 of this Code describes the procedure for making these reports. You may also make an anonymous report under Section F.2 if you are not comfortable revealing your identity when making a report.

1. **DISCLOSURES TO INVESTORS**

We are required under U.S. federal securities laws to provide the public with periodic disclosure regarding our business and financial condition (such as quarterly and annual reports and materials for our annual stockholders’ meeting). We provide additional disclosures to the public through our quarterly earnings calls and press releases and provide disclosures to our lenders and other credit providers through various means. All AGNC people who participate in the preparation or dissemination of these disclosures, or who provide information that they know may be used in the preparation of

these disclosures, have a legal and ethical duty to ensure that the content of the disclosures is accurate, complete and timely.

We have created and will continue to create disclosure controls and procedures that are designed to ensure that all such disclosures are accurate, complete and timely. If you become aware that our disclosures are not accurate, complete and timely, or become aware of a transaction or development you believe may require disclosure, you should report the matter immediately to our Chief Compliance Officer or a member of the Audit Committee.

* 1. **RETENTION OF DOCUMENTS**

Certain types of documents and records (including, for example, e-mails) must be retained for specific periods of time, because of legal and regulatory requirements, or contractual obligations to our providers of capital or others. These periods of time, and the types of documents and records covered, may vary from time to time and will be announced as appropriate. We expect you to comply with the document retention requirements that apply to you. If you are working with these types of documents and records, or are uncertain whether the documents or records you are working with are subject to these retention requirements, please consult with your supervisor, a member of our Legal team or our Chief Compliance Officer.

Whenever you become aware that documents or records of any type may be required in connection with a lawsuit or government investigation, you must preserve all possibly relevant documents. This means that you must immediately stop disposing of or altering those documents pertaining to the subjects of the litigation or investigation, even if that activity is ordinary or routine. If you are uncertain whether documents or records under your control should be preserved because they might relate to a lawsuit or investigation, you should contact a member of our Legal team or our Chief Compliance Officer.

1. **PROTECTING CONFIDENTIAL INFORMATION**
   1. **AGNC CONFIDENTIAL INFORMATION**

You will often have access to information that is private to AGNC, has not been made public and constitutes trade secrets or proprietary information. Protection of this information is critical to our ability to grow and compete.

Under the laws of most jurisdictions where we do business, trade secrets are legally protected property as long as they remain secret (meaning not generally or publicly known).

Your obligations with respect to our confidential trade secrets and proprietary information are:

* + - Not to disclose the information outside of AGNC;
    - Not to use the information for any purpose except to benefit AGNC’s business; and
    - Not to disclose the information within AGNC, except to other AGNC people who need to know, or use, the information and are aware that it constitutes a trade secret or proprietary information.

These obligations continue even after you leave AGNC, until the information becomes publicly available or until we no longer consider it a trade secret or proprietary information. Any documents, papers or records that contain trade secrets or proprietary information are our property and must remain at the company. In certain cases, AGNC people have executed nondisclosure agreements, employment agreements or other similar agreements that govern their obligations with respect to our information.

Our confidential trade secrets and proprietary information may include, among other things, information regarding our operations, business plans, investments, customers, strategies, trade secrets, records, finances, assets, data or other information that reveals the processes, methodologies or know how by which our existing or future investments, services or methods of operation are developed, conducted or operated.

* 1. **CONFIDENTIAL INFORMATION OF OTHERS**

In the normal course of business, you will acquire information about many other organizations, including clients, suppliers and competitors. This is a normal business activity and is not unethical in itself. We properly gather this kind of information for such purposes as evaluating investments. We also collect information on competitors from a variety of legitimate sources to evaluate the relative merits of our own investments and other business practices.

There are, however, limits to the ways that this information should be acquired and used. When working with sensitive information about our customers or suppliers, you should use that information only for the purposes for which it was disclosed to you and make it available only to other AGNC people with a legitimate need to know.

You should not use illegitimate means to acquire a competitor’s trade secrets or other confidential information. Illegal practices such as trespassing, burglary, wiretapping, bribery and stealing are obviously wrong. We will not tolerate any form of questionable intelligence-gathering. In addition, we strive to protect the privacy of personal information of others. We will only collect, use, process, and disclose an individual’s personal information in accordance with applicable law and our internal policies.

* 1. **INADVERTENT DISCLOSURE**

You should be careful to avoid the inadvertent disclosure of proprietary information. To avoid inadvertent disclosure, you should never discuss with any unauthorized person proprietary information that AGNC considers confidential or that we have not made public. You also should not discuss this information even with authorized AGNC people if you are in locations where unauthorized people may overhear you, such as airplanes or elevators, or when using non-secure electronic bulletin boards or databases. You should also not discuss this information with family members or with friends, because they may innocently or unintentionally pass the information on to someone else.

* 1. **CONTACTS WITH REPORTERS, ANALYSTS AND OTHER MEDIA**

Because of the importance of the legal requirements regarding disclosure of certain information to our investors, we must make certain that any information regarding our business, financial condition or operating results that is released to the public is accurate and consistent. As a result, you should not discuss internal AGNC matters with anyone outside of AGNC, except as clearly required in the performance of your job duties. This prohibition applies particularly to inquiries about AGNC made by the news media, securities analysts or investors. All responses to these inquiries must be made only by our executive officers (and individuals specifically designated by them, including members of our Investor Relations and Corporate Communications staffs), who are authorized to discuss information about AGNC with the news media, securities analysts and investors. If you receive inquiries from these sources, you should immediately refer them to one of these authorized spokespersons.

It should also be noted that the foregoing restrictions also apply with regard to the disclosure of information through other media, including but not limited to bulletin boards, internet chat rooms and social media.

1. **ADMINISTRATION OF THIS CODE**
   1. **ONGOING REVIEW OF COMPLIANCE**

We require all AGNC people to comply with this Code. Upon your receipt of this Code, and also from time to time as we deem to be necessary, we may require you to sign an acknowledgement confirming that you have read and understood this Code and agree to comply with its provisions. We reserve the right to monitor your continuing compliance with the provisions of this Code and to investigate any suspected violations. If substantiated, these violations could result in disciplinary action, as described more fully in the following sections.

1. **REPORTING OF SUSPECTED VIOLATIONS**

We expect you to bring to the attention of the Chief Compliance Officer (or any people that the Chief Compliance Officer designates) information about suspected violations of this Code by any other AGNC person as promptly as practicable. Additionally, we may designate a third-party hotline provider to which information about suspected violations of the Code may be reported. If you have information about suspected improper accounting or auditing matters, you should bring such information to the attention of our Chief Compliance Officer or a member of our Audit Committee directly. To contact our Audit Committee or to submit a report to them, please contact them at the contact information that we will distribute periodically.

If you are not comfortable revealing your identity when making a report, you can also make an anonymous report with our Chief Compliance Officer, the hotline or our Audit Committee.

You should feel safe in reporting this information, without regard to the identity or position of the suspected offender. We will treat the information in a confidential manner (consistent with appropriate evaluation and investigation) and will not take any acts of retribution or retaliation against you for making a report.

Because failure to report criminal activity can itself be understood to condone the crime, we emphasize the importance of prompt reporting. For both criminal activity and other violations of this Code, failure to report knowledge of wrongdoing may result in disciplinary action against those who fail to report.

1. **NON-RETALIATION**

Nothing in this Code shall prohibit you from reporting any possible violation of federal law or regulation to any governmental agency. Further, nothing shall restrict you from communicating with such agency in the course of its investigation or from making disclosures that are protected pursuant to the whistleblower provisions of federal law and regulation.

Retaliation in any form against an AGNC person who reports a violation of this Code (even if the report is mistaken but was submitted in the good faith belief it was correct) or who assists in the investigation of a reported violation is itself a serious violation of this Code. Acts of retaliation should be reported immediately and may result in severe disciplinary action.

1. **INVESTIGATION OF SUSPECTED VIOLATIONS**

Suspected violations will be investigated under the supervision of our Chief Compliance Officer or the Audit Committee, in such manner as the Chief Compliance Officer or the Audit Committee, as applicable, deems appropriate. You are expected to cooperate in the investigation of reported violations. When practical and appropriate under the circumstances, and in order to protect the privacy of the persons involved, those people investigating the suspected violation will attempt to keep confidential the identity of someone who reports a suspected violation or who participates in the investigation. There may be situations, however, when this information must be disclosed as part of our investigation.

The Chief Compliance Officer may call upon members of our Legal team to participate in any investigations. You should be aware that our Chief Compliance Officer and the members of our Legal team are legally obligated to act in the best interests of AGNC as a company. They do not act as lawyers or personal representatives for any individual AGNC person, including our executive officers. Our Board of Directors (the “Board”) has ultimate responsibility for final interpretation of this Code and for determining whether any violations of this Code have occurred.

1. **DISCIPLINARY ACTION**

If our Chief Compliance Officer or our Board (or those acting under their supervision) determine, in their good faith discretion, that you have violated any provision of this Code, you may be subject to

disciplinary action, up to and including termination of your employment or contract without prior warning and referral for criminal prosecution and fines.

1. **SPECIAL PROVISIONS APPLICABLE TO CERTAIN FINANCIAL EXECUTIVES**

Given the important position of trust and authority that they occupy, our Chief Executive Officer, President, Chief Operating Officer, Chief Investment Officer, Chief Financial Officer, Chief Accounting Officer, Controller, directors and certain other persons who may be designated by the Board or the Audit Committee (collectively, the “Financial Executives”) should act extremely cautiously in interpreting and applying this Code. Financial Executives should consult with our Chief Compliance Officer with respect to any proposed actions or arrangements that are not clearly consistent with the Code. In the event that a Financial Executive wishes to engage in a proposed action or arrangement that is not consistent with the Code, the Financial Executive must obtain a waiver of the relevant Code provisions in advance from the Board.

The Sarbanes-Oxley Act of 2002 imposes certain reporting requirements on AGNC with respect to our Financial Executives’ compliance with the Code. In accordance with these requirements, we will publicly report on a Current Report on Form 8-K any waivers of any provision of the Code granted by our Board to any Financial Executive. Violations of the Code by our Financial Executives may also be immediately reported on Form 8-K.

1. **REVISIONS AND UPDATES TO THIS CODE**

This Code may be revised, changed or amended at any time by our Board. Following any material revisions or updates, an updated version of this Code will be distributed to you, and will supersede the prior version of this Code effective upon distribution. We may ask you to sign an acknowledgement confirming that you have read and understood the revised version of the Code, and that you agree to comply with its provisions.

1. **IMPORTANT DISCLAIMERS**

This Code reflects general principles to guide you in making ethical decisions and cannot, and is not intended to, address every specific situation in which we may find it appropriate to take disciplinary action. This Code is not intended to create any contract (express or implied) with you, including without limitation any employment contract, or to constitute any promise with regard to the length and terms of your employment.

Exhibit 31.1

**AGNC Investment Corp.**

**Certification Pursuant to Section 302(a)**

**of the Sarbanes-Oxley Act of 2002**

I, Gary D. Kain, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AGNC 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 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:
   1. 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;
   2. 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;
   3. 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
   4. 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 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:
   1. 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
   2. 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.

Date: August 5, 2019

/s/ GARY D. KAIN



Gary D. Kain

Chief Executive Officer and Chief Investment

Officer (Principal Executive Officer)

Exhibit 31.2

**AGNC Investment Corp.**

**Certification Pursuant to Section 302(a)**

**of the Sarbanes-Oxley Act of 2002**

I, Bernice E. Bell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AGNC 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 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:
   1. 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 entitles, particularly during the period in which this report is being prepared;
   2. 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;
   3. 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
   4. 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 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:
   1. All significant deficiencies and material weakness 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
   2. 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.

Date: August 5, 2019

/s/ BERNICE E. BELL



Bernice E. Bell

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

Exhibit 32

**AGNC Investment Corp.**

**Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350,**

**as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

We, Gary D. Kain, Chief Executive Officer and Chief Investment Officer, and Bernice E. Bell, Senior Vice President and Chief Financial Officer of

AGNC Investment Corp. (the “Company”), certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 that:

1. The Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2019 (the “Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

|  |  |  |  |
| --- | --- | --- | --- |
|  | /s/ | GARY D. KAIN |  |
| Name: |  | |  |
| Gary D. Kain | |  |
| Title: | Chief Executive Officer and | |  |
|  | Chief Investment Officer (Principal Executive Officer) | |  |
| Date: | August 5, 2019 | |  |
|  | /s/ | BERNICE E. BELL |  |
| Name: |  | |  |
| Bernice E. Bell | |  |
| Title: | Senior Vice President and | |  |
|  | Chief Financial Officer (Principal Financial Officer) | |  |
| Date: | August 5, 2019 | |  |

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.