



# UBS Global Financial Services Conference

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May 9, 2012

# Safe Harbor Statement

## *Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995*

This presentation contains statements that, to the extent they are not recitations of historical fact, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). All such forward-looking statements are intended to be subject to the safe harbor protection provided by the Reform Act. Actual outcomes and results could differ materially from those forecast due to the impact of many factors beyond the control of American Capital Agency Corp. ("AGNC"). All forward-looking statements included in this presentation are made only as of the date of this presentation and are subject to change without notice. Certain factors that could cause actual results to differ materially from those contained in the forward-looking statements are included in our periodic reports filed with the Securities and Exchange Commission ("SEC"). Copies are available on the SEC's website at [www.sec.gov](http://www.sec.gov). AGNC disclaims any obligation to update our forward-looking statements unless required by law.

The following slides contain summaries of certain financial and statistical information about AGNC. They should be read in conjunction with our periodic reports that are filed from time to time with the SEC. Historical results discussed in this presentation are not indicative of future results.

# Corporate Overview



IPO DATE:  
**MAY 2008**

IPO PRICE:  
**\$20.00**

TOTAL DIVIDENDS PAID SINCE IPO<sup>1</sup>:  
**\$20.11**

NET ASSET VALUE PER SHARE<sup>2</sup>:  
**\$29.06**

TOTAL EQUITY CAPITAL<sup>2</sup>:  
**\$8.7 BILLION**

STOCK TICKER:  
**AGNC**

EXCHANGE:  
**NASDAQ**

## SUMMARY

American Capital Agency Corp. is a real estate investment trust that invests in and manages a levered portfolio of residential mortgage securities for which the principal and interest payments are guaranteed by a U.S. government-sponsored entity (Fannie Mae, Freddie Mac) or a U.S. government agency (Ginnie Mae).

## OUR INVESTMENT OBJECTIVE

- Provide attractive risk-adjusted returns to our investors over the long-term through a combination of dividends and capital appreciation

## OUR INVESTMENT STRATEGY

- Invest across the Agency MBS universe
- Relative value approach to asset selection
- Actively manage the portfolio
- Leverage and hedging strategies that are actively managed based on portfolio composition and market risks

## OUR TEAM

- Senior investment professionals have worked together for the majority of their careers and, on average, have 19 years of investment experience across the residential mortgage universe
- Previously managed one of the world's largest portfolios of residential mortgage related investments

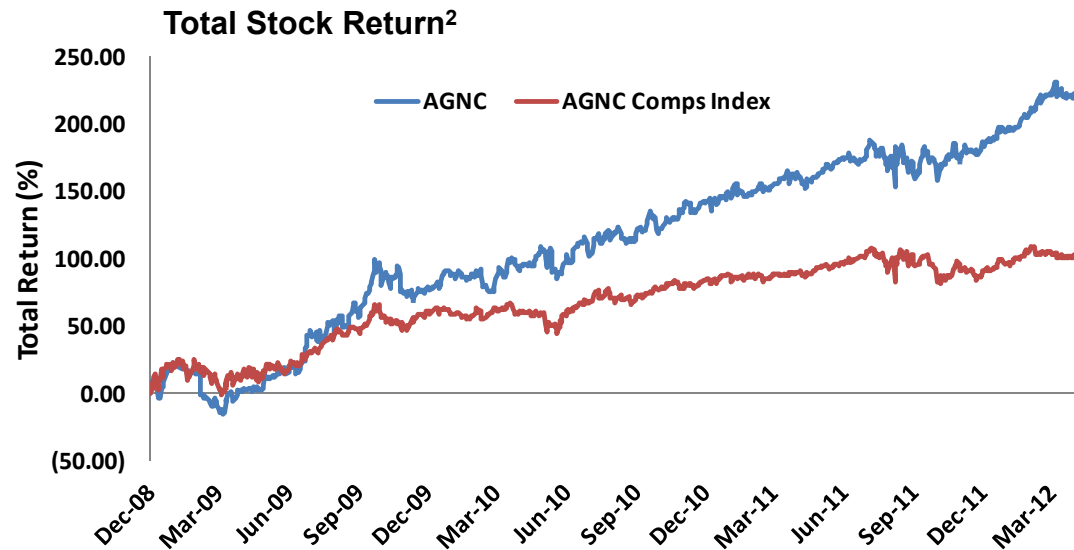
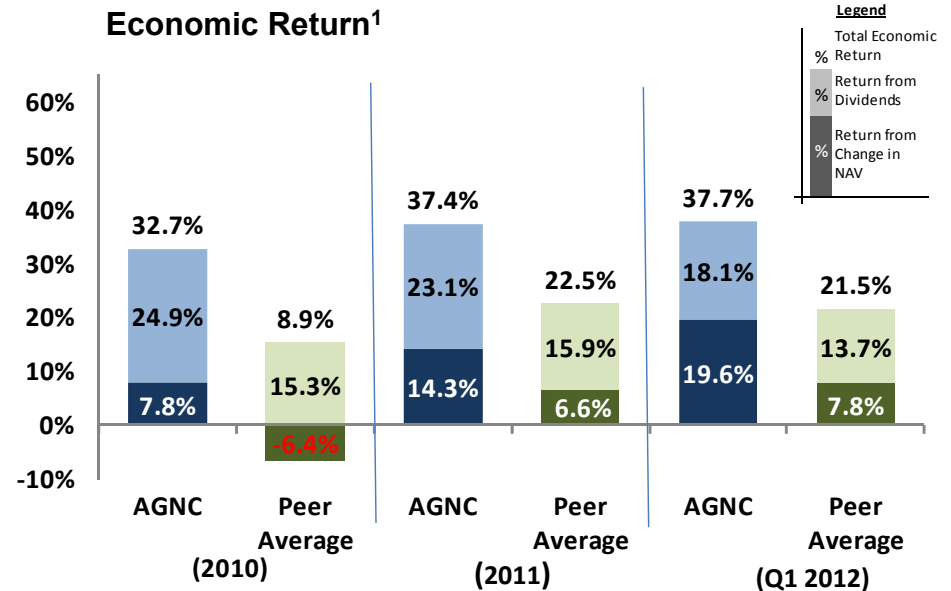
## OUR FEE STRUCTURE

- 1.25% on equity
- No incentive fee

1) As of April 27, 2012.  
2) As of March 31, 2012.

# AGNC Returns vs. Peer Group

- ◆ AGNC has paid \$20.11 dollars per share in dividends since its IPO in May 2008.
- ◆ AGNC has grown book value 68% from \$17.25 per share on December 30, 2008 to \$29.06 as of March 31, 2012.
  - ✓ Book value has increased in 11 of the last 12 quarters
- ◆ These results have exceeded the performance of our peers over a volatile multiyear period

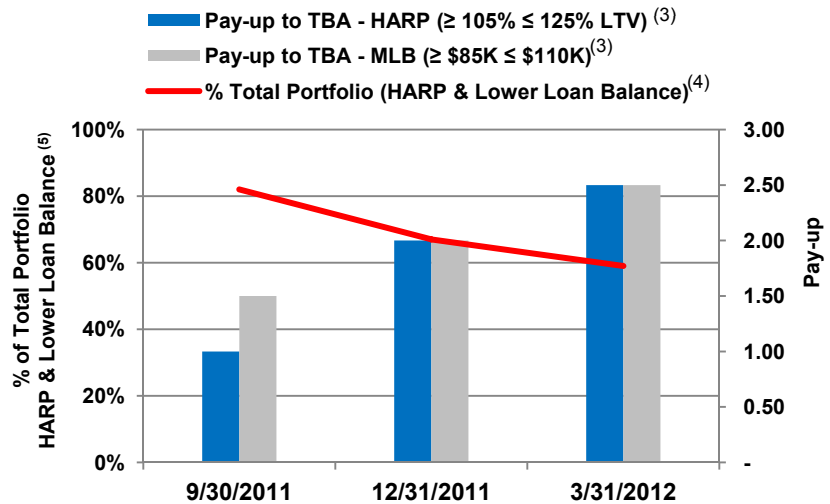


1) Past performance is not a guarantee of future results.  
 2) Source: Company filings; Peer Average comprised of the following peers on an unweighted basis: ANH, CMO, CYS, HTS, NLY. NAV for selected peers have been adjusted to reflect the impact of dividends that are declared shortly after the closing of a quarter  
 3) Source: SNL Financial; AGNC Comps Index comprised of the following peers on an unweighted basis: ANH, CMO, CYS, HTS, NLY.

# Asset Selection is Critical to Book Value

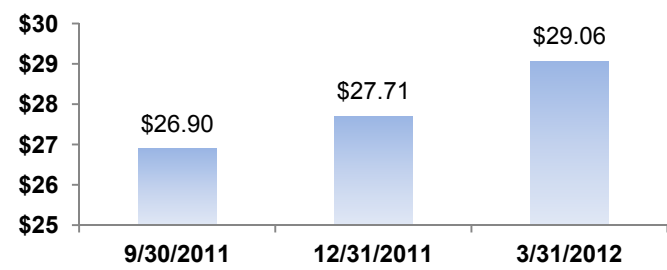
- ◆ Pools backed by HARP and lower loan balance loans significantly outperformed more generic TBA MBS
- ◆ AGNC portfolio emphasized MBS backed by loans with favorable prepayment characteristics
  - ✓ Book value benefited from this positioning despite interest rates trending higher
  - ✓ We have been reducing our holdings of higher coupon MBS in an attempt to reduce our exposure to “pay-up” risk while locking in some of this tremendous outperformance <sup>(1)</sup>
- ◆ Despite reducing exposure to lower loan balance and HARP securities, we believe that the portfolio remains well positioned with respect to prepayment risk

## Pay-ups and % of Portfolio Invested in HARP & Lower Loan Balance MBS <sup>(2)</sup>



10 Yr U.S. Trsy Rate	9/30/2011	12/31/2011	3/31/2012
	1.92%	1.88%	2.21%

## Net Book Value Per Share



1) Pay-ups represent the value of the price premium for specified pools over generic TBA prices.  
 2) The chart is for illustrative purposes and does not represent the actual pay-up on our investment portfolio. Refer to slide 12 for detail on the composition of our investment portfolio  
 3) Pay-ups for FNMA 30-year 4.5% HARP securities with original LTV's ≥ 105% and ≤ 125% and FNMA 30-year 4.5% lower loan balance securities with original loan balances ≥ \$85k and ≤ \$110K  
 4) Holdings of HARP securities defined as pools backed by 100% refinance loans with original LTVs ≥ 80% and ≤ 125%. Lower loan balance securities defined as pools backed by max original loan balances of up to \$150K  
 5) Percentage of total portfolio based on market values for each period



# Business Economics

(unaudited)	As of 3/31/12 <sup>(1)</sup>	As of 12/31/11	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Year 2011
Asset Yield	3.06%	3.07%	3.32%	3.06%	3.14%	3.35%	3.39%	3.19%
Cost of Funds <sup>(2)</sup>	(0.99)%	(1.13)%	(1.01)%	(1.16)%	(1.00)%	(0.89)%	(0.81)%	(0.78)%
<b>Net Interest Rate Spread</b>	<b>2.07%</b>	<b>1.94%</b>	<b>2.31%</b>	<b>1.90%</b>	<b>2.14%</b>	<b>2.46%</b>	<b>2.58%</b>	<b>2.41%</b>
<b>Leverage <sup>(3)</sup></b>	<b>8.4x</b>	<b>7.9x</b>	<b>8.2x</b>	<b>7.6x</b>	<b>7.9x</b>	<b>7.6x</b>	<b>7.4x</b>	<b>7.6x</b>
Leveraged Net Interest Rate Spread	17.29%	15.39%	19.02%	14.44%	16.89%	18.64%	18.99%	18.41%
Plus: Asset Yield	3.06%	3.07%	3.32%	3.06%	3.14%	3.35%	3.39%	3.19%
<b>Gross ROE Before Expenses and Other Income</b>	<b>20.34%</b>	<b>18.46%</b>	<b>22.34%</b>	<b>17.51%</b>	<b>20.03%</b>	<b>21.99%</b>	<b>22.38%</b>	<b>21.60%</b>
Management Fees as a % of Equity	(1.22)%	(1.18)%	(1.28)%	(1.31)%	(1.27)%	(1.32)%	(1.42)%	(1.33)%
Other Operating Expenses as a % of Equity	(0.26)%	(0.39)%	(0.32)%	(0.43)%	(0.48)%	(0.48)%	(0.44)%	(0.46)%
<b>Total Operating Expenses as a % of Equity</b>	<b>(1.48)%</b>	<b>(1.57)%</b>	<b>(1.60)%</b>	<b>(1.74)%</b>	<b>(1.75)%</b>	<b>(1.80)%</b>	<b>(1.86)%</b>	<b>(1.79)%</b>
<b>Net Spread Income ROE</b>	<b>18.86%</b>	<b>16.89%</b>	<b>20.74%</b>	<b>15.77%</b>	<b>18.28%</b>	<b>20.19%</b>	<b>20.52%</b>	<b>19.81%</b>
Other Miscellaneous <sup>(4)</sup>	-- %	-- %	(1.11)%	(1.14)%	(1.27)%	(0.70)%	(0.71)%	(2.64)%
Realized Other Income, net of Tax <sup>(5)</sup>	-- %	-- %	12.56%	6.37%	7.21%	1.43%	5.92%	5.42%
Unrealized Other Income/(Loss)	-- %	-- %	4.61%	(6.11)%	(3.79)%	(2.08)%	(3.27)%	(4.11)%
<b>Net Income ROE <sup>(6)</sup></b>	<b>18.86%</b>	<b>16.89%</b>	<b>36.80%</b>	<b>14.88%</b>	<b>20.39%</b>	<b>18.84%</b>	<b>22.46%</b>	<b>18.48%</b>
Other Comprehensive Income (Loss)	-- %	-- %	(3.10)%	19.12%	1.89%	7.02%	3.58%	9.09%
<b>Comprehensive Income ROE</b>	<b>18.86%</b>	<b>16.89%</b>	<b>33.70%</b>	<b>34.00%</b>	<b>22.28%</b>	<b>25.86%</b>	<b>26.04%</b>	<b>27.57%</b>

- As of 3/31/12, the mark-to-market yield on our MBS portfolio was 2.82%, the mark-to-market pay fixed rate on our swap portfolio was 1.18%, and the mark-to-market cost of funds was 0.80%
- Cost of funds includes interest expense and other periodic swap interest costs reported in other income (loss). Cost of funds as of 3/31/12 and 12/31/11 includes the impact of swaps in effect as of each date (\$31.0 B and \$27.7 B, respectively), plus forward starting swaps becoming effective, net of swaps expiring, within three months of each date (\$7.2 B and \$1.3 B, respectively), but excludes costs associated with supplemental hedges such as swaptions and short treasury or TBA positions
- Leverage as of 3/31/12 and 12/31/11 calculated as sum of repurchase agreements, net payable / receivable for unsettled agency securities and other debt divided by total stockholders' equity. Average leverage calculated as the daily weighted average sum of repurchases agreements and other debt outstanding divided by the average month-ended equity for the period
- Other miscellaneous reflects the impact of differences between the use of daily averages used for investment securities and repurchase agreements and the month-end average used for shareholders' equity, cash and cash equivalents, restricted cash, other non investment assets and liabilities, and other immaterial rounding differences
- Realized other income, net of tax, excludes other periodic swap interest costs included in cost of funds
- Net income ROE for Q1 12, Q4 11 and Q3 11 is not comparable to prior periods due to the Company's discontinuation of hedge accounting for interest rate swaps as of Sept 30, 2011. Following hedge de-designation, mark-to-market adjustments on the Company's interest rate swaps are recognized in other income (loss), net, whereas they were previously recognized in other comprehensive income (OCI), a separate component of stockholders' equity

# Looking Ahead, Three Scenarios to Consider

	Moderate Growth Continues -and/or- Inflation Remains Near FED Target	Economy Weakens -and/or- Inflation Below FED Target	Economy Rebounds Strongly -and/or- Inflation Increases Significantly
<b>Probability</b>	Most Likely	Medium	Low
<b>10-Year Rate</b>	Moderate Increase	Flat to Lower	Large, Rapid Increase
<b>Yield Curve</b>	Steepens	Flattens	Steepens
<b>QE3</b>	Unlikely	Likely	None
<b>Prepayment Rate Impact</b>	Organic prepayments decrease, HARP 2.0 speeds could increase	Materially Accelerate	Slow Significantly
<b>Expected Agency MBS Impact</b>	<ul style="list-style-type: none"> <li>Mortgage prices decline moderately</li> <li>Mortgage spreads perform reasonably well vs. hedges as slower prepays and steeper curve entice investors</li> </ul>	<ul style="list-style-type: none"> <li>Price of lower coupon and prepay protected mortgages increase materially</li> <li>Prices of generic, higher coupons and ARMs likely appreciate much less as prepayment fears weigh on sector and no FED bid <sup>(1)</sup></li> </ul>	<ul style="list-style-type: none"> <li>Mortgage prices fall</li> <li>Extension risk increases</li> <li>Spreads widen</li> </ul>
<b>Potential Implications for AGNC</b>	<ul style="list-style-type: none"> <li>Returns on existing portfolio improve as prepays slow</li> <li>Steeper yield curve leads to wider spreads on new purchases</li> <li>Moderate book value changes</li> </ul>	<ul style="list-style-type: none"> <li>Prepayment protection critical to returns on existing assets</li> <li>Returns on new purchases significantly less attractive</li> <li>Book value likely increases in response to QE3</li> </ul>	<ul style="list-style-type: none"> <li>Effective hedges critical to performance</li> <li>New purchases very attractive, but book value preservation is key to being able to add assets</li> <li>Book value likely decreases</li> </ul>

*The views expressed above are of the AGNC investment team as of March 31, 2012 and should not be interpreted as forecasts or investment advice. Opinions expressed may change without notice.*

1) In a QE3 scenario, the FED is more likely to purchase lower coupon generic mortgages and less likely to purchase generic higher coupons and ARMs

# AGNC Positioning Against This Backdrop

*We continue to believe AGNC is well positioned to generate attractive risk adjusted returns across a wide range of scenarios*

	AGNC Positioning	Thought Process
<b>Asset Selection</b>	<ul style="list-style-type: none"> <li>Continue to focus on assets with prepay protection or low coupon generic mortgages</li> <li>Manage “pay-up” exposure on pools <sup>(1)</sup></li> <li>Minimize HARP 2.0 exposure</li> </ul>	<ul style="list-style-type: none"> <li>Maintain prepayment protected portfolio</li> <li>Generic, low coupon fixed-rate mortgages can be sold to the FED at rich levels if QE3 occurs</li> <li>Managing premiums paid for specified securities (“pay-up at risk”) will improve book value performance if rates rise</li> <li>Speeds on HARP 2.0 eligible mortgages could pick up meaningfully under a variety of scenarios</li> </ul>
<b>Hedging</b>	<ul style="list-style-type: none"> <li>Greater reliance on swaptions in the near term</li> <li>Increase hedge duration in response to asset composition and valuations</li> </ul>	<ul style="list-style-type: none"> <li>Swaptions provide meaningful protection against the unlikely risk of a large selloff</li> <li>Low swap rates and potential for QE3 reduce downside of longer hedge ratios</li> </ul>
<b>Funding</b>	<ul style="list-style-type: none"> <li>Maintain focus on reducing rollover risk</li> <li>Maintain substantial diversification of lenders</li> </ul>	<ul style="list-style-type: none"> <li>Enhances liquidity position</li> </ul>
<b>Leverage</b>	<ul style="list-style-type: none"> <li>Leverage levels consistent with recent history</li> <li>Future leverage levels or strategies can change quickly and will be a function of perceived risk/return tradeoffs, liquidity considerations, changes in the market value of our equity, and other factors</li> </ul>	<ul style="list-style-type: none"> <li>Current returns are still attractive and mortgages are unlikely to cheapen significantly in the absence of a large increase in interest rates</li> <li>Recent outperformance of MBS (and pools backed by favorable prepayment characteristics in particular) make higher leverage less desirable</li> <li>Lower leverage would be problematic in a QE3 scenario as FED purchases would drive MBS to very rich valuations</li> </ul>



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1) Pay-ups represent the value of the price premium over generic TBA prices



# Supplemental Slides

# Q1 2012 Highlights

- ◆ **\$2.44 Comprehensive Income per Share, Comprised of:**
  - ✓ \$2.66 net income per share
  - ✓ \$0.22 other comprehensive loss per share
- ◆ **\$1.42 Net Spread Income per Share <sup>(1)</sup>**
  - ✓ \$1.30 per share, excluding approximately \$0.12 per share of premium amortization benefit due to change in projected constant prepayment rate ("CPR") estimates
- ◆ **\$2.03 Estimated Taxable Income per Share**
- ◆ **\$1.25 Dividend Declared per Share**
- ◆ **\$1.28 Estimated Undistributed Taxable Income per Share as of Mar 31, 2012**
  - ✓ Increased \$0.48 per share from \$0.80 per share as of Dec 31, 2011
  - ✓ Represents an increase of \$204 million from \$180 million as of Dec 31, 2011 to \$384 million as of Mar 31, 2012
- ◆ **\$29.06 Net Book Value per Share as of Mar 31, 2012**
  - ✓ Increased \$1.35 per share from \$27.71 per share as of Dec 31, 2011
- ◆ **38% Annualized Economic Return <sup>(2)</sup>**
  - ✓ Comprised of \$1.25 per share dividend and \$1.35 increase in net book value per share

1) Net spread income is a non-GAAP measure that we define as adjusted net interest income, less total operating expenses. Adjusted net interest income is interest income less interest expense (or "GAAP net interest income"), less other periodic swap interest costs reported in other income (loss), net (or \$39 million for Q1). Please also refer to slide 15 for further discussion of non-GAAP measures

2) Represents the sum of the change in net book value and the dividend declared during the period over beginning net book value on an annualized basis

# Q1 2012 Other Highlights

- ◆ **\$81 Billion Investment Portfolio as of Mar 31, 2012**
- ◆ **8.4x Leverage as of Mar 31, 2012** <sup>(1)</sup>
  - ✓ 8.2x average leverage for the quarter
- ◆ **10% Actual Portfolio CPR for the Quarter** <sup>(2)</sup>
  - ✓ 12% actual portfolio CPR for the month of Apr 2012 <sup>(3)</sup>
  - ✓ 9% average projected portfolio life CPR as of Mar 31, 2012
- ◆ **2.31% Annualized Net Interest Rate Spread for the Quarter** <sup>(4)</sup>
  - ✓ 2.13% annualized net interest rate spread for the quarter, excluding premium amortization benefit due to change in projected CPR estimates
  - ✓ 2.07% net interest rate spread as of Mar 31, 2012 <sup>(4)(5)</sup>
- ◆ **\$2.4 Billion of Net Equity Proceeds Raised**
  - ✓ \$2.1 billion of net proceeds raised in a follow-on equity offering during the quarter
  - ✓ \$142 million of net proceeds raised in a controlled equity offering during the quarter
  - ✓ \$167 million of net proceeds raised from preferred stock offering during Apr 2012

1) Leverage calculated as sum of repurchase agreements, net payable/receivable for agency securities not yet settled and other debt divided by total stockholders' equity as of Mar 31, 2012

2) Actual weighted average monthly annualized CPR published during Jan, Feb and Mar 2012 for agency securities held as of the preceding month-end

3) Actual weighted average 1 month annualized CPR published during Apr 2012 for agency securities held as of Mar 31, 2012

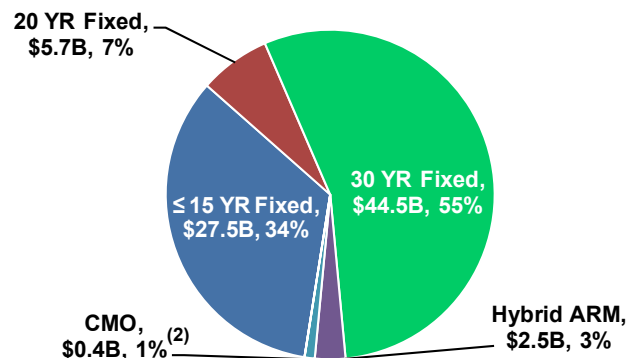
4) Net interest rate spread calculated as the average asset yield, less adjusted average cost of funds. Adjusted average cost of funds includes the sum of average repo and average net interest rate swap rates. Please also refer to slide 20 and 30 for a reconciliation and further discussion of non-GAAP measures

5) Incorporates the impact of forward starting interest rate swap agreements starting within 90 days of Mar 31, 2012, net of scheduled expirations

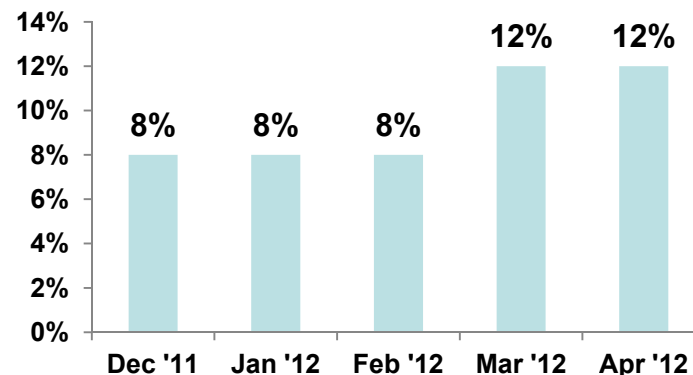
# Q1 2012 Portfolio Update

*Our portfolio remains well positioned against prepayments*

## \$80.6 B Portfolio as of 3/31/12 <sup>(1)</sup>



## AGNC 2011/2012 Actual CPR's <sup>(3)</sup>



## ≤ 15 Year - \$27.5 B Portfolio (34% of Total) as of 3/31/12

(\$ In Millions)	FMV	%	Coupon	WALA	Apr'12 1 M Actual CPR <sup>(3)</sup>	Life Forecast CPR <sup>(7)</sup>
Lower Loan Bal <sup>(4)</sup>	\$18,405	67%	3.74%	14	11%	10%
HARP <sup>(5)</sup>	\$1,193	4%	3.80%	12	7%	9%
Other 2009-2012 <sup>(6)</sup>	\$7,790	29%	3.64%	15	24%	15%
Other (Pre 2009)	\$78	0%	4.30%	85	17%	15%
<b>Total ≤15 Year</b>	<b>\$27,466</b>	<b>100%</b>	<b>3.71%</b>	<b>14</b>	<b>15%</b>	<b>12%</b>

## 30 Year - \$44.5 B Portfolio (55% of Total) as of 3/31/12

(\$ In Millions)	FMV	%	Coupon	WALA	Apr'12 1 M Actual CPR <sup>(3)</sup>	Life Forecast CPR <sup>(7)</sup>
Lower Loan Bal <sup>(4)</sup>	\$12,191	27%	4.09%	10	7%	7%
HARP <sup>(5)</sup>	\$15,378	35%	4.14%	7	4%	7%
Other 2009-2012 <sup>(6)</sup>	\$15,689	35%	3.87%	6	12%	8%
Other (Pre 2009) <sup>(6)</sup>	\$1,265	3%	5.31%	79	33%	17%
<b>Total 30 Year</b>	<b>\$44,523</b>	<b>100%</b>	<b>4.06%</b>	<b>9</b>	<b>8%</b>	<b>8%</b>

- 1) Excludes net TBA and forward settling securities of \$1.0B 15-year net long position and \$8.3B 30-year net short position
- 2) Includes interest-only, inverse interest-only and principal-only securities
- 3) Weighted average actual 1 month annualized CPR released at the beginning of the month based on the securities held as of the preceding month-end
- 4) Lower loan balance securities defined as pools backed by max original loan balances of up to \$150K. Weighted average original loan balance of \$101K and \$107K for 15 and 30-year securities, respectively, as of Mar 31
- 5) HARP securities defined as pools backed by 100% refinance loans with original LTVs ≥ 80% and ≤ 125%. Weighted average original LTV of 95% and 92% for 15 and 30-year securities, respectively, as of Mar 31
- 6) Includes total of \$954MM and \$934MM of securities backed by loans with original loan balances ≤ \$175K for 15 and 30-year securities, respectively, as of Mar 31
- 7) Average projected life CPR as of Mar 31

# Duration Gap Information

**Our Duration Gap was 0.41 years as of Mar 31, 2012, compared to -0.05 years as of Dec 31, 2011 <sup>(1)</sup>**

- ◆ Duration is an estimate of an instrument's expected price change for a parallel change in interest rates
- ◆ Duration gap is an estimate of the difference in the interest rate exposure (or price sensitivity) our assets and our liabilities and hedges
- ◆ Duration gap is expressed in years relative to the market value of our assets
- ◆ Duration gap does not take into account the negative convexity of our mortgage assets and does not take into account the impact of leverage on our equity or NAV
- ◆ Slide 28 presents the modeled impact of our duration gap including the impact of negative convexity and leverage

Duration Gap (\$ in millions, duration in years)		
Asset	Market Value	Duration
Fixed <sup>(2)</sup>	\$77,776	3.47
ARM	\$2,500	2.32
CMO <sup>(3)</sup>	\$395	-0.90
Cash	\$2,077	0.01
<b>Total</b>	<b>\$82,748</b>	<b>3.33</b>

Liabilities & Hedges	Market Value / Notional	Duration
Liabilities	(\$69,816)	0.17
Swaps	(\$38,100)	3.65
Swaptions	(\$10,500)	1.39
TBA	(\$7,656)	4.55
Treasury / Futures	(\$5,957)	6.99
IOS	(\$155)	-3.53
<b>Total</b>		<b>-2.91</b>

<b>Net Duration Gap as of March 31, 2012</b>	<b>0.41</b>
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*Our duration and duration gap estimates are derived from models that are dependent on inputs and assumptions provided by third parties as well as by our investment team and, accordingly, actual results could differ materially from these estimates. In addition, different models could generate materially different estimates using similar inputs and assumptions. Management uses judgment to address the limitations and weaknesses inherent in model calculations as it seeks to balance the protection of book value with the generation of attractive returns. For example, we typically map lower loan balance and HARP securities to proxy securities within our models in order to derive durations and convexities that management believes are more consistent with how the prices of these securities would perform over larger interest rate movements. Other market participants could make materially different assumptions with respect to these and other judgments. Please also refer to slide 29 and our related disclosures in our 10-Ks and 10-Qs for a more complete discussion of duration (interest rate risk).*



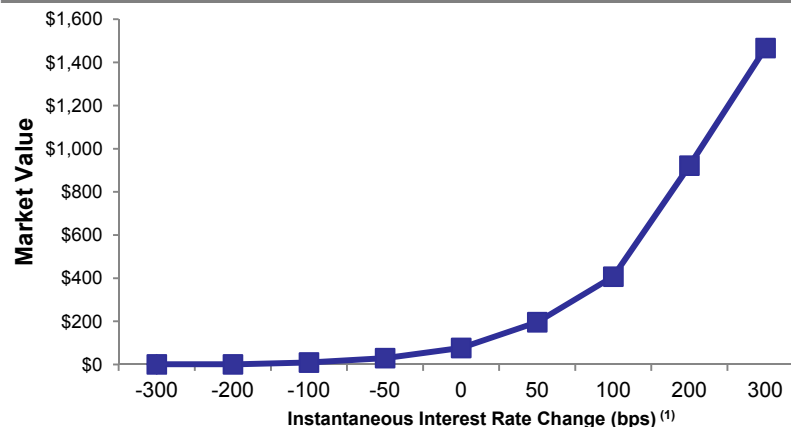
1) During Q1 '12, we implemented an updated prepayment model provided by Blackrock Solutions, which had the impact of increasing the reported duration of our assets by approximately ½ year  
 2) Includes \$101 MM of 30-year forward settling securities  
 3) CMO balance includes interest-only, inverse interest-only and principal-only securities

# Review of Why We Use Swaptions

## ◆ Swaption Market Value Profile

- ✓ The market value of our assets can be expected to drop materially in the face of large interest rate increases
- ✓ Swaption portfolio is designed to increase in value in response to rapid increases in rates
- ✓ If interest rates increase 300 bps the market value of the swaption portfolio would increase from \$78 MM (as of Mar 31) to approximately \$1.5 B, providing a partial offset against a decline in asset values

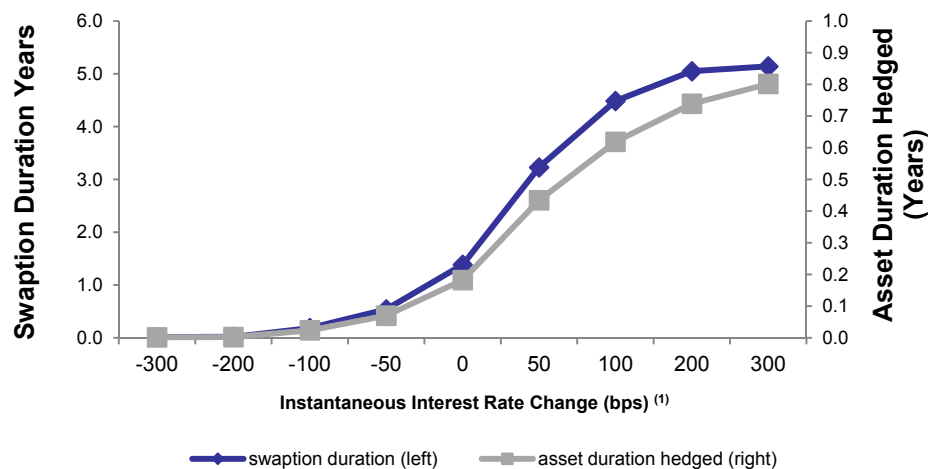
**Swaption Market Value Profile**  
(\$ in millions)



## ◆ Swaption Duration Profile

- ✓ The duration of our assets will extend materially if rates rise
- ✓ As rates rise, duration of swaption portfolio will increase from 1.5 years to about 5 years
- ✓ Swaption portfolio provides a partial offset against asset extension in a rising rate scenario
- ✓ At its peak, swaption portfolio could hedge about 0.8 years of asset extension

**Swaption Portfolio Duration Profile**



The graphs above depict projected results for the swaption portfolio only and do not include anticipated projected losses or extension on our assets or gains/losses on other hedges. These estimates are derived from models that are dependent on inputs and assumptions provided by third parties as well as by our investment team and, accordingly, actual results could differ materially from these estimates. In addition, different models could generate materially different estimates using similar inputs and assumptions.

1) Assumes immediate interest rate shock and results would be materially different if shocks occur over time or at some time in the future. Assumes rates are floored at 0% in down rate scenario

# Use of Non-GAAP Financial Information

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In addition to the results presented in accordance with GAAP, this presentation includes certain non-GAAP financial information, including net spread income, estimated taxable income and certain financial metrics derived from non-GAAP information, such as estimated undistributed taxable income, which the Company's management uses in its internal analysis of results, and believes may be informative to investors.

Net spread income consists of adjusted net interest income, less total operating expenses. Adjusted net interest income is interest income less interest expense (or "GAAP net interest income"), less other periodic interest rate swap interest costs reported in other income (loss), net.

Estimated taxable income is pre-tax income calculated in accordance with the requirements of the Internal Revenue Code rather than GAAP. Estimated taxable income differs from GAAP income because of both temporary and permanent differences in income and expense recognition. Examples include (i) unrealized gains and losses associated with interest rate swaps and other derivatives and securities marked-to-market in current income for GAAP purposes, but excluded from estimated taxable income until realized or settled, (ii) temporary differences related to the amortization of premiums paid on investments and (iii) timing differences in the recognition of certain realized gains and losses. Furthermore, estimated taxable income can include certain information that is subject to potential adjustments up to the time of filing of the appropriate tax returns, which occurs after the end of the calendar year of the Company.

The Company believes that these non-GAAP financial measures provide information useful to investors because net spread income is a financial metric used by management and investors and estimated taxable income is directly related to the amount of dividends the Company is required to distribute in order to maintain its REIT tax qualification status. The Company also believes that providing investors with net spread income, estimated taxable income and certain financial metrics derived based on such estimated taxable income, in addition to the related GAAP measures, gives investors greater transparency to the information used by management in its financial and operational decision-making. However, because net spread income and estimated taxable income are an incomplete measure of the Company's financial performance and involve differences from net income computed in accordance with GAAP, net spread income and estimated taxable income should be considered as supplementary to, and not as a substitute for, the Company's net income computed in accordance with GAAP as a measure of the Company's financial performance. In addition, because not all companies use identical calculations, the Company's presentation of net spread income and estimated taxable income may not be comparable to other similarly-titled measures of other companies. A reconciliation of non-GAAP net spread income and taxable income measures to GAAP net income is set forth on our Q1 2012 Shareholder Presentation.