



PROVIDING PRIVATE CAPITAL TO
THE U.S. HOUSING MARKET
THROUGH INVESTMENT EXCELLENCE

2019

ANNUAL REPORT

ANNUAL REPORT

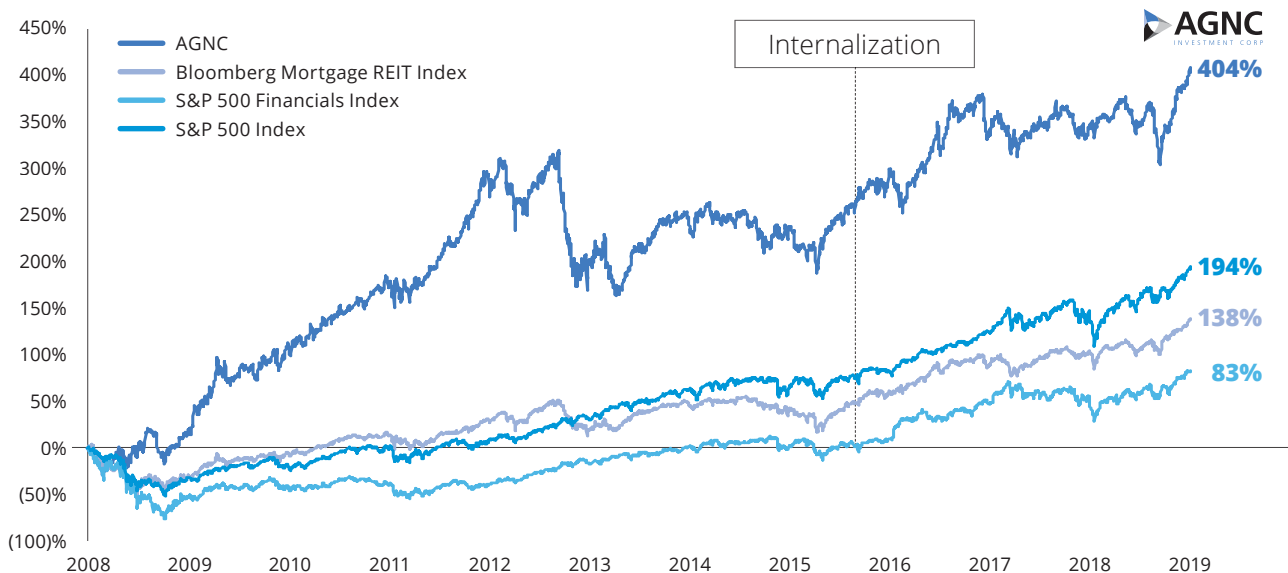
2019

Dear Fellow Stockholders

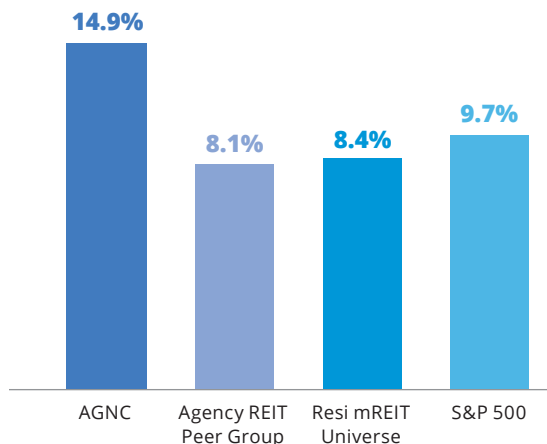
AGNC's very strong financial performance in the fourth quarter of 2019 capped a tremendous year for the company. AGNC's economic return of 9.6% in the fourth quarter represents AGNC's best quarter since the second quarter of 2014 and drove a total economic return of 18.7% for the year. AGNC's economic return of 18.7% in 2019 was comprised of \$2.00 of dividends per common share and a \$1.10 increase in tangible net book value per common share. Finally, AGNC's total stock return for the year, assuming reinvestment of dividends, was 13.3%.

Since inception, our goal at AGNC has been to generate best-in-class returns for our stockholders through a combination of attractive dividends and book value preservation. With the completion of another successful year in 2019, our cumulative total stock return since our initial public offering is +404%, significantly exceeding the S&P 500 Index (+194%), the Bloomberg Mortgage REIT Index (+138%), and the S&P 500 Financials Index (+83%) over the same time period, as illustrated below.

Total Stock Returns Since AGNC's May 2008 IPO¹



Annualized Total Stock Returns Since AGNC's May 2008 IPO²



This cumulative performance represents a nearly 15% annualized total stock return, assuming reinvestment of dividends.

We have achieved these returns through a combination of prudent asset selection and risk management, coupled with our low-cost operating structure as an internally managed REIT.

Asset selection is a critical component of alpha generation for levered mortgage investors. Borrower prepayment activity ultimately determines the cash flows we receive on our mortgage investments and negatively impacts

returns if not managed appropriately. To protect against this risk, AGNC has historically maintained higher levels of "specified pools," which are backed by loan attributes that typically mitigate prepayment activity during declining or volatile interest rate environments. In 2019, our portfolio composition, a result of asset repositioning actions to increase our allocation of capital to prepay-protected specified pools and lower coupon securities, greatly enhanced our financial performance and lessened the impact of the volatile interest rate environment.

Active risk management has been a cornerstone of our investment strategy since inception. We strive to protect our portfolio against both prepayment risk and extension risk by carefully managing our duration gap across a wide range of scenarios. In 2019, we took several actions with respect to our hedge portfolio that ultimately benefited both our tangible Net Asset Value and our Net Spread and Dollar Roll Income. Specifically, we

- Shortened the duration of our hedge portfolio by terminating longer-term pay fixed swap and treasury-based hedges as interest rates declined in 2019;
- Increased our hedge ratio to effectively "lock in" anticipated Federal Reserve rate cuts; and
- Transitioned a material percentage of our swap portfolio from LIBOR-based swaps to OIS- and SOFR-indexed swaps, which provide lower pay rates and ultimately reduce our exposure to LIBOR.

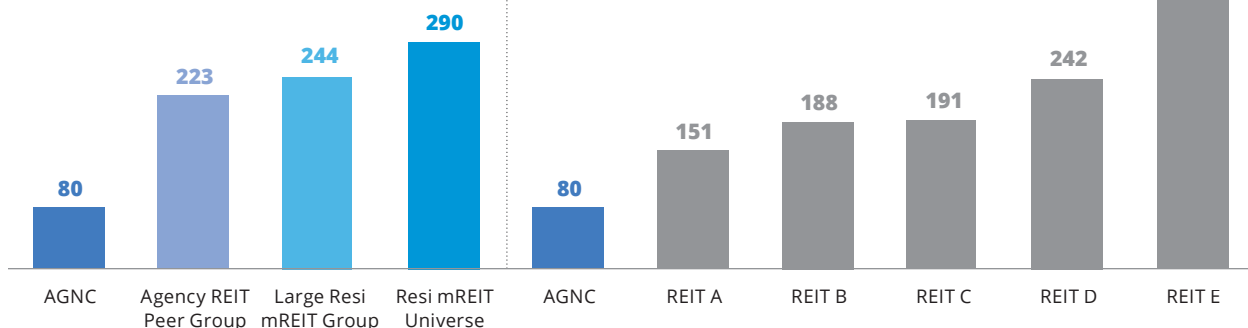
Together, these actions provided a tailwind to our 2019 earnings and are expected to continue to benefit AGNC in 2020.

Finally, our low-cost operating structure, a result of our internalization transaction in 2016, continues to provide a significant benefit relative to other mortgage REITs and other yield vehicles. Our aggregate operating costs are 0.80% of our total stockholders' equity, which is approximately 1.50% less than our Agency REIT Peer Group (2.23%) and 2.10% less than the Resi mREIT Universe (2.90%) and provides an intrinsic advantage relative to our higher-cost peers.

Residential Mortgage REIT Operating Cost Structures³

Residential mREIT Group Averages⁴

(Operating expenses as a percentage of stockholders' equity, in basis points)



While we are proud of our 2019 performance and our track record since our initial public offering, we remain focused on the future of AGNC. We are hopeful for another successful year in 2020, given our expectation for interest rates to remain at historically low levels and more favorable funding conditions. Unlike many sectors of the fixed-income and equity markets, valuations of Agency mortgage-backed securities are consistent with multiyear averages and should continue to provide an opportunity for attractive risk-adjusted returns. As a result, we are optimistic about AGNC's future as we begin 2020.

As always, we thank you for your continued support of AGNC.

Best regards,

Gary Kain

Chief Executive Officer and Chief Investment Officer

March 6, 2020

ENDNOTES

1. Stock return is measured from AGNC's IPO through December 31, 2019. Total stock return over a period includes price appreciation and dividend reinvestment; dividends are assumed to be reinvested at the closing price of the security on the ex-dividend date. The Bloomberg index codes for the Bloomberg Mortgage REIT Index and the S&P 500 Financials Index are BBREMTG and S5FINL, respectively. Source: S&P Global Market Intelligence and Bloomberg.
2. Stock return is measured from AGNC's IPO through December 31, 2019 and annualized over the period beginning on the later of (i) AGNC's IPO date or (ii) the date on which such company became publicly traded (to the extent it was not publicly traded at the time of AGNC's IPO) and ending on December 31, 2019. Total stock return over a period includes price appreciation and dividend reinvestment; dividends are assumed to be reinvested at the closing price of the security on the ex-dividend date. The residential mortgage REIT ("mREIT") universe is unweighted and includes Great Ajax Corp. ("AJX"), Anworth Mortgage Asset Corporation ("ANH"), ARMOUR Residential REIT, Inc. ("ARR"), Cherry Hill Mortgage Investment Corporation ("CHMI"), Chimera Investment Corporation ("CIM"), Capstead Mortgage Corporation ("CMO"), Dynex Capital, Inc. ("DX"), Ellington Residential Mortgage REIT ("EARN"), Invesco Mortgage Capital Inc. ("IVR"), MFA Financial, Inc. ("MFA"), AG Mortgage Investment Trust, Inc. ("MITT"), Annaly Capital Management, Inc. ("NLY"), New Residential Investment Corp. ("NRZ"), New York Mortgage Trust, Inc. ("NYMT"), Orchid Island Capital, Inc. ("ORC"), PennyMac Mortgage Investment Trust ("PMT"), Redwood Trust, Inc. ("RWT"), Two Harbors Investment Corp. ("TWO"), and Western Asset Mortgage Capital Corporation ("WMC"). For Agency-focused residential mortgage REIT peer comparison purposes, the Agency REIT Peer Group is unweighted and includes ANH, ARR, CMO, DX, IVR, NLY and TWO.
3. Cost structures are based on operating expenses and average stockholders' equity (excluding noncontrolling interests, as applicable) over the trailing twelve-month period ended September 30, 2019 as publicly reported by such REITs. Operating costs include expenses for compensation and benefits, management fees, incentive fees (if applicable), and G&A and may include one-time or nonrecurring expenses. Operating costs exclude direct costs associated with operating activities, such as loan acquisition costs, securitization costs, servicing expenses, etc. to the extent publicly disclosed by such REITs. Source: Company filings and S&P Global Market Intelligence.
4. The residential mortgage REIT ("mREIT") universe is unweighted and includes AJX, ANH, ARR, CHMI, CIM, CMO, DX, EARN, IVR, MFA, MITT, NLY, NRZ, NYMT, ORC, PMT, RWT, TWO and WMC. The large resi mREIT group is unweighted and includes residential mREITs with greater than \$3 billion in total stockholders' equity as of December 31, 2019: CIM, MFA, NLY, NRZ and TWO. For Agency-focused residential mortgage REIT peer comparison purposes, the Agency REIT Peer Group is unweighted and includes ANH, ARR, CMO, DX, IVR, NLY and TWO.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the year ended December 31, 2019
OR

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

Commission file number 001-34057



Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

26-1701984
(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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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

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 No

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

(Do not check if a smaller reporting 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
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
Depository shares of 7.000% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock	AGNCN	The Nasdaq Global Select Market
Depository shares of 6.875% Series D Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock	AGNCM	The Nasdaq Global Select Market
Depository shares of 6.50% Series E Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock	AGNCO	The Nasdaq Global Select Market
Depository shares of 6.125% Series F Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock	AGNCP	The Nasdaq Global Select Market

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

As of June 30, 2019, the aggregate market value of the Registrant's common stock held by non-affiliates of the Registrant was approximately \$7.4 billion based upon the closing price of the Registrant's common stock of \$16.82 per share as reported on The Nasdaq Global Select Market on that date. (For this computation, the Registrant has excluded the market value of all shares of its common stock reported as beneficially owned by executive officers and directors of the Registrant and certain other stockholders; such an exclusion shall not be deemed to constitute an admission that any such person is an "affiliate" of the Registrant.)

The number of shares of the issuer's common stock, \$0.01 par value, outstanding as of January 31, 2020 was 540,943,011.

DOCUMENTS INCORPORATED BY REFERENCE. The Registrant's definitive proxy statement for the 2020 Annual Meeting of Stockholders is incorporated by reference into certain sections of Part III herein.

Certain exhibits previously filed with the Securities and Exchange Commission are incorporated by reference into Part IV of this report.

AGNC INVESTMENT CORP.

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PART I.

Item 1. Business

AGNC Investment Corp. ("AGNC," the "Company," "we," "us" and "our") was organized 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 fund our investments primarily through borrowings structured as repurchase agreements.

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 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 the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac," and together with Fannie Mae, the "GSEs"), or by a U.S. Government agency, such as the Government National Mortgage Association ("Ginnie Mae"). We may 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 or in other investments in, or related to, the housing, mortgage or real estate markets.

Investment Strategy

Our investment strategy is intended to:

- generate attractive risk-adjusted returns for our stockholders through monthly dividend distributions and tangible net book value accretion;
- manage an investment portfolio consisting primarily of Agency securities;
- invest a subset of the portfolio in credit risk-oriented mortgage assets;
- capitalize on discrepancies in the relative valuations in the Agency and non-Agency securities market;
- manage financing, interest rate, prepayment, extension and credit risks;
- continue to qualify as a REIT; and
- remain exempt from the requirements of the Investment Company Act of 1940 (the "Investment Company Act").

Targeted Investments

Agency Securities

- **Agency Residential Mortgage-Backed Securities.** Our primary investments consist of Agency pass-through certificates representing interests in "pools" of mortgage loans secured by residential real property. Monthly payments of principal and interest made by the individual borrowers on the mortgage loans underlying the pools are in effect "passed through" to the security holders, after deducting GSE or U.S. Government agency guarantee and servicer fees. In general, mortgage pass-through certificates distribute cash flows from the underlying collateral on a pro rata basis among the security holders. Security holders also receive guarantor advances of principal and interest for delinquent loans in the mortgage pools. We also invest in Agency collateralized mortgage obligations ("CMOs"), which are structured instruments representing interests in Agency residential pass-through certificates, and interest-only, inverse interest-only and principal-only securities, which represent the right to receive a specified proportion of the contractual interest or principal flows of specific Agency CMO securities.
- **To-Be-Announced Forward Contracts ("TBAs").** TBAs are forward contracts to purchase or sell Agency RMBS. TBA contracts specify the coupon rate, issuer, term and face value of the bonds to be delivered, with the actual bonds to be delivered only identified shortly before the TBA settlement date.

Non-Agency Securities

- **Credit Risk Transfer ("CRT") Securities.** CRT securities are risk sharing instruments 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 other third-party; rather, "credit risk transfer" is achieved by writing down the outstanding principal balance of the CRT security if credit losses on the related pool of loans exceed certain thresholds. The reduced amount that issuers are obligated to repay to the security holders offsets the issuer's credit losses on the related pool of loans.
- **Non-Agency Residential Mortgage-Backed Securities ("Non-Agency RMBS").** Non-Agency RMBS are securities backed by pools of residential mortgages, for which payment of principal and interest is not guaranteed by a GSE or U.S. Government agency. Instead, a private institution such as a commercial bank will package residential mortgage loans and securitize them through the issuance of RMBS. Non-Agency RMBS may benefit from credit enhancement derived from structural elements, such as subordination, overcollateralization or insurance. We may purchase investment grade instruments that benefit from credit enhancement and non-investment grade instruments that are structured to absorb more credit risk. We focus primarily on non-Agency securities where the underlying mortgages are secured by residential properties within the United States. Residential non-Agency securities are backed by residential mortgages that can be comprised of prime mortgage or nonprime mortgage loans. We may also purchase Agency and non-Agency multifamily securities where the collateral backing the securitization consists of loans for multi-unit housing properties.
- **Commercial Mortgage-Backed Securities ("CMBS").** CMBS are securities backed by pools of commercial mortgage loans. CMBS can be structured as pass-through securities, where the cash flows generated by the collateral pool are passed on a pro rata basis to investors after netting servicer or other fees, or where cash flows are distributed to numerous classes of securities following a predetermined waterfall, which may give priority to selected classes while subordinating other classes. We may invest across the capital structure of these securities, and we intend to focus on CMBS where the underlying collateral is secured by commercial properties located within the United States.

Active Portfolio Management Strategy

We employ an active management strategy designed to achieve our principal objectives of generating attractive risk-adjusted returns and managing our tangible net book value within reasonable bands. As part of our investment strategy, we use leverage on our investment portfolio to increase potential returns to our stockholders. We invest in securities based on our assessment of the relative risk-return profile of the securities and our ability to effectively hedge a portion of the securities' exposure to market risks. The composition of our portfolio and strategies that we use will vary based on our view of prevailing market conditions and the availability of suitable investment, hedging and funding opportunities. We may experience investment gains or losses when we sell securities that we believe no longer provide attractive risk-adjusted returns or when we believe more attractive alternatives exist elsewhere in the mortgage or mortgage-related securities market. We may also experience gains or losses from our hedging strategies and losses on our non-Agency securities due to credit impairments.

Financing Strategy

The primary source of financing for our investments is repurchase agreement transactions. A repurchase (or "repo") agreement transaction acts as a financing arrangement under which we effectively pledge our investment securities as collateral to secure a loan. Our borrowings through repurchase transactions are generally short-term and have maturities ranging from one day to one year but may have maturities up to five or more years. Our financing rates are typically impacted by the U.S. federal funds rate and other short-term benchmark rates and liquidity in the Agency repo and other short-term funding markets.

Our leverage depends on market conditions, our assessment of risk and returns and our ability to borrow sufficient funds to acquire mortgage securities. We generally 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 diversify our funding exposure by entering into repurchase agreements with multiple counterparties. We had master repurchase agreements with 46 financial institutions as of December 31, 2019. The terms of our master repurchase agreements generally conform to the terms in the standard master repurchase agreement as published by the Securities Industry and Financial Markets Association ("SIFMA") as to repayment, margin requirements and the segregation of all securities sold under the repurchase transaction. In addition, each lender may require that we include supplemental terms and conditions to the standard master repurchase agreement to address such matters as additional margin maintenance requirements, cross default and other provisions. The specific provisions may differ for each lender and certain terms may not be determined until we engage in individual repurchase transactions.

We finance a portion of our investments through our wholly-owned captive broker-dealer subsidiary, Bethesda Securities, LLC ("BES"). BES is a member of the Fixed Income Clearing Corporation ("FICC") and has direct access to bilateral and triparty repo funding as a Financial Industry Regulatory Authority ("FINRA") member broker-dealer. As an eligible institution, BES also raises repo funding through the General Collateral Finance ("GCF") Repo service offered by the FICC, with the FICC acting as the central counterparty, which provides us greater depth and diversity of repurchase agreement funding while also lowering our funding cost, reducing our collateral requirements and limiting our counterparty exposure.

We also effectively finance the acquisition of Agency RMBS by entering into TBA dollar roll transactions through which we sell a TBA contract for current month settlement and simultaneously purchase a similar TBA contract for a forward settlement date. Prior to the forward settlement date, we may choose to roll the position to a later date by entering into an offsetting TBA position, net settling the paired off positions for cash, and simultaneously entering into a similar TBA contract for a forward settlement date. The TBA contract purchased for the forward settlement date is priced at a discount to the TBA contract sold for settlement/pair off in the current month. The difference (or discount) is referred to as the "price drop" and is the economic equivalent of net interest carry income (interest income less implied financing cost) on the underlying Agency RMBS over the roll period, which is commonly referred to as "dollar roll income." We recognize TBA contracts as derivative instruments on our consolidated financial statements at their net carrying value, which is their fair value less the purchase price to be paid or received under the TBA contract. Consequently, dollar roll transactions represent a form of off-balance sheet financing. In evaluating our overall leverage, we consider both our on-balance sheet and off-balance sheet financing.

Risk Management Strategy

We are exposed to a variety of market risks, including interest rate, prepayment, extension and credit risks. Our investment strategies are based on our assessment of these risks, our ability to hedge a portion of these risks and our intention to qualify as a REIT. Our hedging strategies are generally not designed to protect our net book value from "spread risk," which as a levered investor in mortgage-backed securities is the inherent risk we take that the spread between the market yield on our investments and the benchmark interest rates linked to our interest rate hedges fluctuates. In addition, although we attempt to protect our net book value against moves in interest rates, we may not fully hedge against interest rate, prepayment and extension risks if we believe that bearing such risks enhances our return profile, or if the hedging transaction would negatively impact our REIT status.

- **Interest Rate Risk.** We hedge a portion of our interest rate risk with respect to both the fixed income nature of our long-term assets and the short-term, variable rate nature of our financing. A majority of our funding is in the form of repurchase agreements, and, as a result, our financing costs fluctuate based on short-term interest rate indices, such as the U.S. federal funds rate and LIBOR. Our investments are assets that primarily have fixed rates of interest with maturities up to 30 years, and the interest we earn on those assets generally does not move in tandem with the interest that we pay on our repurchase agreements. As such, we may experience reduced income or losses due to adverse interest rate movements. To mitigate a portion of such risk, we utilize hedging techniques to attempt to lock in a portion of the net interest spread between the interest we earn on our assets and the interest we pay on our borrowings.

Fluctuations in the shape of the yield curve or changes in the market's expectation about future interest rate volatility can also adversely affect the value of our assets. Furthermore, because prepayments on residential mortgages generally accelerate when interest rates decrease and slow when interest rates rise, mortgage securities may increase in value more slowly than similar duration bonds, or even fall in value, as interest rates decline. Mortgage securities could also decrease in value more quickly than similar duration bonds as interest rates rise. This is referred to as "negative convexity." We attempt to manage this risk through asset selection and the use of a variety of hedging techniques. We monitor the "duration gap" of our portfolio, or differences in the interest rate sensitivity of our assets relative to our liabilities, inclusive of interest rate hedges, and how our convexity and duration gap could change if interest rates and prepayment expectations were to increase or decrease under a variety of scenarios.

- **Prepayment Risk.** Because residential borrowers have the option to prepay their mortgage loans at par at any time, we face the risk that we will experience a return of principal on our investments faster than anticipated. Prepayment risk generally increases when interest rates decline, and our financial results could be adversely affected as we may have to reinvest principal repayments at lower yields.
- **Extension Risk.** Because residential borrowers have the option to make only scheduled payments on their mortgage loans, we face the risk that a return of capital on our investment will occur slower than anticipated. Extension risk generally increases when interest rates rise, and our financial results could be adversely affected as we may have to finance our investments at potentially higher costs without the ability to simultaneously reinvest principal repayments into higher yielding securities due to a lack of or slower than anticipated borrower prepayments.
- **Spread Risk.** Because the market spread between the yield on our investments and the yield on benchmark interest rates, such as U.S. Treasury rates and interest rate swap rates, may vary, we are exposed to spread risk. When spreads widen,

we will typically experience a loss in our tangible net book value, conversely, when spreads tighten, we will typically experience a gain in our tangible net book value. Spread movements can occur independent of interest rates and may relate to other factors impacting the mortgage and fixed income markets, such as actual or anticipated monetary policy actions by the U.S. Federal Reserve (the "Fed"), liquidity, or changes in required rates of return on different assets. Spread risk is an inherent risk we take as a levered investor in mortgage-backed securities and, as such, our strategies are generally not designed to protect our tangible net book value from adverse spread movements.

- **Credit Risk.** We accept mortgage credit exposure related to our CRT and other non-Agency securities at levels we deem to be appropriate 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 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 attempt to adjust our credit exposure and/or to improve the return profile of our investment portfolio by varying the mix of our Agency and non-Agency mortgage investments and adjusting our duration gap when we believe credit performance is inversely correlated with changes in interest rates.

The risk management actions we take may lower our earnings and dividends in the short-term to further our objective of preserving our net book value and maintaining attractive levels of earnings and dividends over the long term. In addition, some of our hedges are intended to provide protection against larger rate moves and as a result may be relatively ineffective for smaller interest rate changes. Our projections of exposures to interest rate, prepayment, extension and other risks are also based on models that are dependent on a number of assumptions and inputs, and actual results could differ materially from our projections.

Employees

As of December 31, 2019, we had 51 full-time employees.

Exemption from Regulation under the Investment Company Act

We conduct our business so as not to become regulated as an investment company under the Investment Company Act, in reliance on the exemption provided by Section 3(c)(5)(C) of the Act. So long as we qualify for this exemption, we will not be subject to leverage and other restrictions imposed on regulated investment companies, which would significantly reduce our ability to use leverage. Section 3(c)(5)(C), as interpreted by the staff of the U.S. Securities and Exchange Commission ("SEC"), requires us to invest at least 55% of our assets in "mortgages and other liens on and interest in real estate" or "qualifying real estate interests" ("55% asset test") and at least 80% of our assets in qualifying real estate interests and "real estate-related assets." In satisfying this 55% requirement, based on pronouncements of the SEC staff and in certain instances our own judgment, we treat Agency RMBS issued with respect to an underlying pool of mortgage loans in which we hold all the certificates issued by the pool ("whole pool" securities) as qualifying real estate interests. We typically treat "partial pool" and other mortgage securities where we hold less than all the certificates issued by the pool as real estate-related assets.

Real Estate Investment Trust Requirements

We have elected to be taxed as a REIT under the Internal Revenue Code. As a REIT, we generally will not be subject to U.S. federal or state corporate income tax on our taxable income to the extent that we distribute annually all our taxable income to stockholders within the time limits prescribed by the Internal Revenue Code. Qualification and taxation as a REIT depend on our ability to continually meet requirements imposed upon REITs by the Internal Revenue Code, including satisfying certain organizational requirements, an annual distribution requirement and quarterly asset and annual income tests. The REIT asset and income tests are significant to our operations as they restrict the extent to which we can invest in certain types of securities and conduct certain hedging activities within the REIT. Consequently, we may be required to limit these activities or conduct them through a taxable REIT subsidiary ("TRS"). We believe that we have been organized and operate in such a manner as to qualify for taxation as a REIT.

Income Tests

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

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

Interest income from obligations secured by mortgages on real property (such as Agency and non-Agency MBS) generally constitutes qualifying income for purposes of the 75% gross income test described above. There is no direct authority with respect to the qualification of income or gains from TBAs for the 75% gross income test; however, we treat these as qualifying income for this purpose based on an opinion of legal counsel. The treatment of interest income from other real estate securities depends on their specific tax structure. Income and gains from instruments that we use to hedge the interest rate risk associated with our borrowings incurred, or to be incurred, to acquire real estate assets will generally be excluded from both gross income tests, provided that specified requirements are met.

Asset Tests

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

1. At least 75% of the value of our total assets must be represented by some combination of "real estate assets," cash, cash items, U.S. Government securities, and, under some circumstances, temporary investments in stock or debt instruments purchased with new capital. For this purpose, mortgage-backed securities and mortgage loans are generally treated as "real estate assets." Assets that do not qualify for purposes of the 75% asset test are subject to the additional asset tests described below.
2. The value of any one issuer's securities that we own may not exceed 5% of the value of our total assets.
3. We may not own more than 10% of any one issuer's outstanding securities, as measured by either voting power or value. The 5% and 10% asset tests do not apply to securities of TRSs and qualified REIT subsidiaries and the 10% asset test does not apply to "straight debt" having specified characteristics and to certain other securities.
4. The aggregate value of all securities of all TRSs that we hold may not exceed 20% of the value of our total assets.
5. No more than 25% of the total value of our assets may be represented by certain non-mortgage debt instruments issued by publicly offered REITs (even though such debt instruments qualify under the 75% asset test).

A failure to satisfy the income or asset tests would not immediately cause us to lose our REIT qualification; rather, we could retain our REIT qualification if we were able to satisfy certain relief provisions and pay any applicable penalty taxes and other fines, or, in the case of a failure to satisfy the asset test, eliminate the discrepancy within a 30-day cure period. Please also refer to the "Risks Related to Our Taxation as a REIT" in "Item 1A. Risk Factors" of this Form 10-K for further discussion of REIT qualification requirements and related items.

Corporate Information

Our executive offices are located at Two Bethesda Metro Center, 12th Floor, Bethesda, MD 20814 and our telephone number is (301) 968-9315.

We make available our Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports as well as our Code of Ethics and Conduct on our internet website at www.AGNC.com as soon as reasonably practical after such material is electronically filed with or furnished to the SEC. These reports are also available on the SEC internet website at www.sec.gov.

Competition

Our success depends, in large part, on our ability to acquire assets at favorable spreads over our borrowing costs. In acquiring mortgage assets, we compete with mortgage REITs, mortgage finance and specialty finance companies, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, other lenders, governmental bodies and other entities. These entities and others that may be organized in the future may have similar asset acquisition objectives and increase competition for the available supply of mortgage assets suitable for purchase. Additionally, our investment strategy is dependent on the amount of financing available to us through repurchase agreements and would be adversely impacted if we are not able to secure financing on favorable terms, if at all.

Item 1A. Risk Factors

You should carefully consider the risks described below and all other information contained in this Annual Report on Form 10-K, including our annual consolidated financial statements and the related notes thereto before deciding to purchase our securities. If any of the following risks were to occur, our business, financial condition or results of operations could be materially adversely affected. If that happens, the trading price of our securities could decline, and you may lose all or part of your investment. The

risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us, or not presently deemed material by us, may also impair our operations and performance.

Risks Related to Our Investing, Portfolio Management and Financing Activities

We may change our targeted investments, investment guidelines and other operational policies without stockholder consent.

We may change our targeted investments and investment guidelines at any time without the consent of our stockholders, which could result in our making investments that are different from, and possibly riskier than, the investments described herein. Our Board of Directors also determines our other operational policies, including our policies with respect to our REIT qualification, acquisitions, dispositions, operations, indebtedness and distributions. Our Board of Directors may amend or revise such policies or authorize transactions that deviate from them, without a vote of, or notice to, our stockholders. A change in our targeted investments, investment guidelines or other operational policies may increase our exposure to interest rate, spread, credit, prepayment, extension, liquidity and other risks, all of which could adversely affect our results of operations and financial condition and, in turn, our ability to make distributions to our common and preferred stockholders.

Our active portfolio management strategy may expose us to greater losses and lower returns than compared to passive strategies.

We employ an active management strategy to achieve our principal objective of preserving our net book value while generating attractive risk-adjusted returns. The composition of our investment portfolio will vary as we believe changes to market conditions, risks and valuations warrant. Consequently, we may experience significant investment gains or losses when we sell investments that we no longer believe provide attractive risk-adjusted returns or when we believe more attractive alternatives are available. We may be incorrect in our assessment and select an investment portfolio that could generate lower returns than a more static management strategy. Also, investors may be less able to assess the changes in our valuation and performance by observing changes in the mortgage market since we may have changed our strategy and portfolio from the last publicly available data. Our leverage and hedging levels may also fluctuate as we pursue our active management strategy.

Our hedging strategies are not designed to mitigate spread risk.

When the spread between the market yield on our mortgage assets and benchmark interest rates widens, our net book value could decline. We refer to this as "spread risk" or "basis risk." As a levered investor in mortgage-backed securities, spread risk is an inherent component of our investment strategy. Consequently, although we use hedging instruments to attempt to protect against moves in interest rates, our hedges will typically not protect us against spread risk. Spreads may widen due to a variety of factors and can occur independent of moves in 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. Consequently, while we use interest rate swaps and other hedges to attempt to protect against moves in interest rates, such instruments typically will not protect our net book value against spread risk. If adverse spread movements result in the value of our mortgage assets to decline by more than the offsetting increase in value of our interest rate hedges or if, of similar effect, the value of our assets to increase by less than the offsetting decline in value of our interest rate hedges, our net book value will decline and our financial condition will be adversely impacted.

Purchases and sales of Agency mortgage-backed securities by the Fed could adversely affect the price and return associated with Agency securities.

The Fed is one of the largest holders of Agency RMBS. In October 2017, the Fed began to taper its reinvestments of principal payments from its Agency RMBS, U.S. Treasury and Agency debt portfolios acquired as a function of its quantitative easing programs. The Fed could vary the pace of its tapering activity, stop altogether or conduct outright purchases or sales of its securities portfolio, which could impact the price and availability of Agency RMBS and the spread between our mortgage investments and interest rate hedges. During periods in which the Fed increases the pace of its tapering, or undertakes outright sales of its securities portfolio, the price of Agency RMBS and U.S. Treasury securities could decline, mortgage spreads could widen, our investments could prepay at a slower rate than anticipated and market volatility could be considerably higher than would have been the case absent such actions. Similarly, if the Fed reduces the pace of tapering, stops altogether or purchases securities, interest rates could decline, and our investments could prepay at a faster rate than anticipated. Consequently, the Fed's actions with respect to its securities portfolio could adversely affect the return on our investments.

Our strategy involves significant leverage, which increases the risk that we may incur substantial losses.

Our leverage will vary with market conditions and our assessment of the risks and returns on our investments. We generally expect to maintain our leverage between six to twelve times the amount of our tangible stockholders' equity, but we may operate at levels outside of this range for an extended period. We incur leverage by borrowing against a substantial portion of the market value of our assets. While leverage is fundamental to our investment strategy, it also creates significant risks. Consequently, we

could incur substantial losses if the value of our investments declines or if mortgage spreads widen and our investments underperform our interest rate hedges.

We may be unable to procure adequate financing or to renew or replace existing financing as it matures.

We use debt financing as a strategy to increase our return on equity, and because we rely primarily on short-term borrowings to finance our mortgage investments, our ability to achieve our investment objectives depends not only on our ability to borrow sufficient amounts and on favorable terms, but also on our ability to renew or replace our maturing short-term borrowings on a continuous basis. However, we may be unable to borrow sufficient funds to achieve our desired leverage ratio for several reasons, including the following:

- liquidity shortfalls in the repo market and other short-term funding markets;
- lenders do not make repurchase agreements or other financing arrangements available to us at acceptable rates and terms;
- lenders exit the market;
- lenders require additional collateral to cover our borrowings, which we may be unable to deliver;
- our funding levels and/or leverage ratio exceeds limits established by lenders, which could change at our lenders' discretion; or
- we default on our obligations, including failure to satisfy covenants or other requirements imposed by our lenders.

Disruptions in the repo market due to liquidity short-falls or other events can adversely impact the availability and cost of repo funding. During such periods, it is possible that the Fed and other policymakers could fail to undertake measures to stabilize the repo market, or, if they attempt to stabilize the repo market, it is possible such measures could be ineffective. Additionally, if/when they alter or cease to undertake such measures, it could cause a significant disruption in the repo market, negatively impacting the availability and cost of our repo funding. In addition, current or new regulatory capital requirements imposed on our lenders may negatively impact their ability or willingness to lend to us. Our lenders may also revise their eligibility requirements for the types of assets they are willing to finance or the terms of such financings based on factors such as the regulatory environment and their management of perceived risk.

If we default on one of our obligations under a repurchase transaction, the counterparty could terminate the transaction and cease entering into other repurchase transactions with us. Additionally, our wholly-owned captive broker-dealer subsidiary's ability to access bilateral and triparty repo funding, such as through the FICC's GCF Repo service, requires that it continually meet regulatory and membership requirements established by FINRA and the FICC, which could change over time, potentially resulting in BES to lose access to these funding sources, which represents a significant portion of our total borrowing capacity.

Because of these and other factors, there is no assurance that we will be able to secure financing on terms that are acceptable to us. If we cannot obtain sufficient funding on acceptable terms, we may have to sell assets, possibly under adverse market conditions, and our financial condition and results of operations could be adversely affected and our ability to make distributions to our stockholders could be limited.

Our borrowing costs may increase at a faster pace than the yield on our investments.

Since we rely primarily on short-term and/or variable rate borrowings to acquire fixed-rate securities with long-term maturities, our borrowing costs are particularly sensitive to increases in short-term interest rates, as well as overall funding availability, market liquidity, fluctuations in asset values and "haircut" levels applied to assets pledged under repurchase agreements and other factors.

The relationship between short and longer-term interest rates is often referred to as the "yield curve." Ordinarily, short-term interest rates are lower than longer-term interest rates, but a flattening of the yield curve can occur if short-term interest rates rise disproportionately relative to longer-term interest rates or if longer-term rates fall disproportionately relative to short-term rates. It is also possible that the yield curve could invert, with short-term rates exceeding longer-term rates. If either of these conditions occur, our borrowing costs could increase more rapidly than the interest income earned on our fixed-rate assets and our net interest margin would decline, or in extreme scenarios even turn negative, adversely impacting our results of operations and financial condition.

A decline in the fair value of our assets may adversely affect our financial condition and make it costlier to finance our assets.

We record our investments at fair value with changes in fair value reported in net income or other comprehensive income (a component of equity). A decline in the fair value of our investments could reduce both our net income and stockholders' equity. We also use our investments as collateral for our financings and certain hedge transactions; consequently, a decline in fair value, or perceived market uncertainty about the value of our assets, could make it difficult for us to obtain financing on favorable terms

or at all, or for us to maintain our compliance with terms of any agreements already in place. Since we primarily invest in long-term fixed rate securities, our investment portfolio is particularly sensitive to changes in longer-term interest rates. If interest rates or other market conditions result in a decline in the fair value of our assets, we would be subject to margin calls on our existing agreements and it would decrease the amount we may borrow to purchase additional investments. If this occurs, we could be required to sell assets at adverse prices and our ability to maintain or increase our net income would be significantly restricted.

It may be uneconomical to roll our TBA dollar roll transactions or we may be unable to meet margin calls on our TBA contracts.

We utilize TBA dollar roll transactions as a means of investing in and financing Agency RMBS, which represents a form of off-balance sheet financing and increases our "at risk" leverage. Sales or declines in purchases of Agency RMBS by the Fed and other market participants could adversely impact the market for TBA dollar roll transactions. TBAs subject us to margin calls under the provisions established by the Mortgage-Backed Securities Division ("MBSD") of the FICC, and our prime brokerage agreements may require that we post additional margin above the levels established by the MBSD. Under certain market conditions it may be uneconomical to roll our TBA positions prior to the settlement date and we could have to take physical delivery of the underlying securities and settle our obligations for cash. We may not have sufficient funds or alternative financing sources available to settle such obligations. Additionally, if we take delivery of the underlying securities, we can expect to receive the "cheapest to deliver" securities, which have the least favorable prepayment attributes that can be delivered to satisfy the TBA contract, such as the anticipated collateral's weighted average coupon, weighted average maturity and projected CPR. The specific securities we do receive may also consist of an insufficient number of "whole pool" securities for us to maintain a sufficient percentage of our assets in qualifying "mortgage and other liens in real estate" required to remain exempt from registration as an investment company under the Investment Company Act. Consequently, failure to procure adequate financing to settle our obligations or to meet margin calls under our TBA contracts could result in defaults or a forced sale of assets in unfavorable market conditions and adversely affect our financial condition and results of operations.

Our funding and derivative agreements subject us to margin calls that could result in defaults or force us to sell assets under adverse market conditions or through foreclosure.

We enter into master repurchase agreements and derivative agreements with a variety of counterparty financial institutions. These institutions require that we maintain a certain amount of collateral with them to protect them from loss in the event we default on our obligations under the agreements.

Borrowings under our master repurchase agreements are secured by the assets financed under the agreements. Pursuant to the terms of our master repurchase agreements, a decline in the value of the collateral may result in our lenders initiating margin calls, where the lender requires us to pledge additional collateral. The specific collateral value to borrowing ratio that would trigger a margin call is not set in the master repurchase agreements and is not determined until we engage in a repurchase transaction under these agreements. Our fixed-rate collateral generally may be more susceptible to margin calls as increases in interest rates tend to affect more negatively the market value of fixed-rate securities. In addition, some collateral may be less liquid than other instruments, which could cause it to be more susceptible to margin calls in a volatile market environment. Moreover, collateral that prepays more quickly increases the frequency and magnitude of potential margin calls as there is a time lag between when the prepayment is reported (which reduces the market value of the security) and when the principal payment is received. If we are unable to satisfy margin calls, our lenders may foreclose on our collateral. The threat of or occurrence of a margin call could force us to sell, either directly or through a foreclosure, our collateral under adverse market conditions, which could result in substantial losses.

Collateral requirements under our derivative agreements are also impacted by changes in the value of the derivative instrument, the counterparties' perceived level of risk and other factors. 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 generally provide additional collateral on the same business day. Furthermore, our derivative agreements may also contain cross default provisions under which a default under certain of our other indebtedness above a certain threshold amount would cause an event of default under the derivative agreement. Following an event of default, we could be required to settle our obligations under the agreements at their termination values. The threat of or occurrence of margin calls or the forced settlement of our obligations under our derivative agreements at their termination values could force us to sell our investments under adverse market conditions, which could result in substantial losses.

Our funding and derivative agreements expose us to risk that our counterparties will not perform their obligations to us as and when due.

When we engage in a repurchase transaction, we initially transfer securities to the counterparty financial institution under one of our master repurchase agreements in exchange for cash, and our counterparty is obligated to resell such assets to us at the end of the term of the transaction. The cash we receive when we initially sell the collateral is less than the value of that collateral and this difference is referred to as the "haircut." As a result, we borrow a smaller amount than the collateral we initially sell in

these transactions and increases in "haircuts" may require us to post additional collateral. If a counterparty defaults on an obligation to resell collateral to us, we could incur a loss on the transaction equal to the amount of the haircut (assuming there was no change in the value of the securities).

Our derivative agreements may also require that we pledge collateral to our derivative counterparties. Based on changes in the value of our derivative agreements, we may also be entitled to receive collateral from our derivative counterparties. Should our derivative counterparties fail to satisfy their obligations to us, such as return our collateral at the conclusion of the derivative transaction, fail to pledge collateral to us or fail to make other payments we are entitled to under the terms of our agreements as and when due, we could incur a loss on equal to the value of our collateral and/or other amounts due to us.

To limit our counterparty exposure, we diversify our funding across multiple counterparties and by counterparty region. We also attempt to minimize counterparty risk by limiting our counterparties to registered central clearing exchanges and major financial institutions with acceptable credit ratings and by monitoring positions with individual counterparties. However, there is no assurance that we will not suffer a loss due to a counterparty default, and, although we believe the risk is minimal due to initial and daily mark-to-mark requirements, guarantee funds, and other resources that are available in the event of default, we could be exposed to a risk of loss if an exchange or a central clearing member of the exchange defaults on its obligations. Further, the enforceability of our derivative and repurchase agreements may also depend on compliance with applicable statutory, commodity and other regulatory requirements and, depending on the domicile of the counterparty, applicable international requirements. Consequently, we cannot assure you that we will not suffer a loss due to a counterparty's failure to fulfill its obligations under our agreements in a timely manner or at all.

Our rights under repurchase agreements are subject to the effects of bankruptcy laws in the event of our or our lender's bankruptcy or insolvency.

In the event of our insolvency or bankruptcy, certain repurchase agreements may qualify for special treatment under the U.S. Bankruptcy Code, the effect of which, among other things, would be to allow the lender under the applicable repurchase agreement to avoid the automatic stay provisions of the U.S. Bankruptcy Code and to foreclose on the collateral without delay. In the event of the insolvency or bankruptcy of a lender during the term of a repurchase agreement, the lender may be permitted, under applicable insolvency laws, to repudiate the contract, and our claim against the lender for damages may be treated simply as an unsecured creditor. In addition, if the lender is a broker or dealer subject to the Securities Investor Protection Act of 1970, or an insured depository institution subject to the Federal Deposit Insurance Act, our ability to recover our assets under a repurchase agreement or to be compensated for any damages resulting from the lender's insolvency may be further limited by those statutes. Recoveries on these claims could be subject to significant delay and, if received, could be substantially less than the damages incurred.

Our hedging strategies may be ineffective.

We employ techniques that are intended to limit, or "hedge," the adverse effect of changes in interest rates on the value of our assets and financing costs, subject to complying with REIT tax requirements. Hedging strategies are complex and there are no perfect hedges. Our business model also calls for accepting certain amounts of risk. Consequently, our hedging activities are generally designed to limit our interest rate exposure, but not to eliminate it, and they are generally not designed to hedge against spread risk and other risks inherent to our business model.

Our hedging strategies vary in scope based on our portfolio composition, liabilities and our assessment of the level and volatility of interest rates, expected prepayments, credit and other market conditions, and are expected to change over time. We could fail to properly assess a risk or fail to recognize a risk entirely, leaving us exposed to losses without the benefit of any offsetting hedges. Furthermore, the derivative financial instruments we select may not have the effect of reducing our risk. Poorly designed hedging strategies or improperly executed transactions could increase our risk of loss. Hedging activities could also result in losses if the hedged event does not occur. Numerous other factors can also impact the effectiveness of our hedging strategies including the following:

- the cost of interest rate hedges, which can be particularly costly during periods of interest rate volatility and rising rates;
- the degree to which the interest rate hedge benchmark rate correlates to the interest rate risk for which protection is sought;
- the degree to which the duration of the hedge matches the duration of the related asset or liability, particularly as interest rates change;
- the amount of income that a REIT may earn from hedging transactions, other than hedging transactions that satisfy certain requirements of the Internal Revenue Code or that are done through a TRS, which is limited by federal tax provisions governing REITs; and

- the degree to which the value of our interest rate hedges changes relative to our assets as a result of fluctuations in interest rates, passage of time, or other factors.

For these reasons, our hedging strategies may fail to protect us from loss and could even result in greater losses than if we had not entered in the hedge transaction, which would negatively impact our operating results and financial condition.

Changes in prepayment rates may adversely affect the return on our investments.

Our investment portfolio includes securities backed by pools of mortgage loans which receive payments related to the underlying mortgage loans. When borrowers prepay their mortgage loans at rates faster or slower than anticipated, it exposes us to prepayment or extension risk. 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 as other factors can affect the rate of prepayments, including loan age and size, loan-to-value ratios, housing price trends, general economic conditions and other factors.

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 margins would be negatively impacted. We also amortize or accrete any 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, which could negatively affect our interest income.

If our assets prepay at a slower rate than anticipated, our assets could extend beyond their expected maturities and we may have to finance our investments at potentially higher costs without the ability to reinvest principal into higher yielding securities. Additionally, if prepayment rates decrease due to a rising interest rate environment, the average life or duration of our fixed-rate assets would extend, but our interest rate swap maturities would remain fixed and, therefore, cover a smaller percentage of our funding exposure. This situation may also cause the market value of our assets to decline, while most of our hedging instruments would not receive any incremental offsetting gains.

To the extent that actual prepayment speeds differ from our expectations, our operating results could be adversely affected, and we could be forced to sell assets to maintain adequate liquidity, which could cause us to incur realized losses. In addition, should significant prepayments occur, there is no certainty that we will be able to identify acceptable new investments, which could reduce our invested capital or result in us investing in less favorable securities.

Prepayment rates are difficult to predict, and market conditions may disrupt the historical correlation between interest rate changes and prepayment trends.

Our success depends, in part, on our ability predict prepayment behavior under a variety of economic conditions and particularly the relationship between changing interest rates and the rate of prepayments. As part of our overall portfolio risk management, we analyze interest rate changes and prepayment trends separately and collectively to assess their effects on our investment portfolio. To a large extent our analysis is based on models that are dependent on a number of assumptions and inputs. Many of the assumptions we use are based upon historical trends with respect to the relationship between interest rates and prepayments under normal market conditions. There is risk that our assumptions are incorrect. Dislocations in the residential mortgage market and other developments may disrupt the relationship between the way that prepayment trends have historically responded to interest rate changes. Prepayment rates are also impacted by other factors beyond interest rates, such as when borrowers sell their property and use the proceeds to prepay their mortgage or when borrowers default on their mortgages and the mortgages are prepaid from the proceeds of a foreclosure sale of the property. Fannie Mae and Freddie Mac will also generally purchase mortgages that are 120 days or more delinquent from RMBS trusts when the cost of guarantee payments to security holders exceeds the cost of holding the nonperforming loans in their portfolios. In addition, the introduction of U.S. Government programs, or changes to existing programs, could increase the availability of mortgage credit to homeowners, which could impact prepayment rates, particularly for Fannie Mae and Freddie Mac Agency RMBS.

The impact of each of these factors on prepayment rates is difficult to predict and may negatively impact our ability to assess the market value of our investment portfolio, implement hedging strategies and/or implement techniques to reduce our prepayment rate volatility, which could adversely affect our financial condition and results of operations.

We use analytical models and data in connection with the valuation of assets and our risk management and hedging activities, and any incorrect, misleading or incomplete information used in connection therewith would subject us to potential risks.

We use analytical models (both those supplied by third parties and proprietary models developed by us) and data and other information supplied by our third-party vendors to value assets, assess potential asset purchases and in connection with our risk management and hedging activities. Models are dependent on a number of assumptions and inputs. Models may also assume a

static portfolio; however, we actively manage our portfolio and, thus, actual results could differ materially from these estimates. If either the models, their underlying assumptions or data inputs prove to be incorrect, misleading or incomplete, any decisions we make in reliance thereon expose us to potential risks. For example, we may be induced to buy certain assets at prices that are too high, sell certain other assets at prices that are too low or forego favorable opportunities altogether. Similarly, any hedging based on faulty models and data may prove to be unsuccessful and expose us to losses on our hedging activities.

Many of the analytical models used by us, such as mortgage prepayment models or mortgage default models, are predictive in nature. The use of predictive models has inherent risks and may incorrectly forecast future behavior, leading to potential losses. Furthermore, since predictive models are usually constructed based on historical trends using data supplied by third parties, the success of relying on such models depends heavily on the accuracy and reliability of the supplied historical data. Additionally, multiple factors could disrupt the relationships between data and historical trends, reducing the ability of our models to predict future outcomes, or even render them invalid, which we are at greater risk of during periods of high volatility. Consequently, actual results could differ materially from our projections. Moreover, use of different models could result in materially different projections.

Some of the risks of relying on analytical models and third-party data are particular to analyzing tranches from securitizations, such as residential and commercial mortgage-backed securities. These risks include, but are not limited to, the following: (i) collateral cash flows and/or liability structures may be incorrectly modeled in all or only certain scenarios, or may be modeled based on simplifying assumptions that lead to errors; (ii) information about collateral may be incorrect, incomplete, or misleading; (iii) collateral or bond historical performance (such as historical prepayments, defaults, cash flows, etc.) may be incorrectly reported, or subject to interpretation (e.g., different issuers may report delinquency statistics based on different definitions of what constitutes a delinquent loan); or (iv) collateral or bond information may be outdated, in which case the models may contain incorrect assumptions as to what has occurred since the date information was last updated.

Many of the models we use include LIBOR as an input. The expected transition away from LIBOR may require changes to models, may change the underlying economic relationships being modeled, and may require the models to be run with less historical data than is currently available for LIBOR. We may incorrectly value LIBOR-based instruments because our models do not currently account for LIBOR cessation.

The mortgage loans referenced by our CRT securities or that underlie our non-Agency securities may be or could become subject to delinquency or foreclosure, which could result in significant losses to us.

Investments in credit-oriented securities, such as CRT securities and non-Agency MBS, where repayment of principal and interest is not guaranteed by a GSE or U.S. Government agency, subject us to the potential risk of loss of principal and/or interest due to delinquency, foreclosure and related losses on the underlying mortgage loans.

CRT securities are risk sharing instruments issued by Fannie Mae and Freddie Mac, and similarly structured transactions arranged by third-party market participants. The CRT securities issued by Fannie Mae and Freddie Mac are designed to transfer mortgage credit risk from the entities to private investors. The transactions are structured as unsecured and unguaranteed bonds issued by the GSEs whose principal payments are determined by the delinquency and prepayment experience of a reference pool of mortgages guaranteed by the GSE. CRT transactions arranged by third-party market participants are similarly structured to reference a specific pool of loans that have been securitized by Fannie Mae or Freddie Mac and transfer mortgage credit risk related to those loans to the purchaser of the securities. The holder of CRT securities bears the risk that the borrowers may default on their obligations to make full and timely payments of principal and interest. The return of the principal invested in CRT securities is dependent on the level of borrower defaults on the underlying pool of mortgages. An investor in CRT securities bears the risk that the borrowers in the reference pool of loans may default on their obligations to make full and timely payments of principal and interest.

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

Commercial mortgage loans underlying CMBS are generally secured by multifamily or other commercial property and are subject to risks of delinquency and foreclosure and risks of loss that are greater than similar risks associated with loans made on the security of residential property. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of an income producing property can be affected by numerous factors, such as: occupancy rates,

tenant mix, success of tenant businesses, property management decisions, property location and condition, changes in economic conditions and other factors.

Geographic concentration can expose us to greater risk of default and loss. Repayments by borrowers and the market value of the related assets underlying our investments are affected by national as well as local and regional economic conditions. As a result, concentrations of investments tied to geographic regions increase the risk that adverse economic conditions or other developments affecting a region could increase the frequency and severity of losses on our investments. Additionally, assets in certain regional areas may be more susceptible to certain hazards (such as earthquakes, widespread fires, rising sea levels, floods, hurricanes and certain climate risks) than properties in other parts of the country, and assets located in coastal states may be more susceptible to hurricanes than properties in other parts of the country. As a result, areas affected by such events often experience disruptions in travel, transportation and tourism, loss of jobs and an overall decrease in consumer activity, and often a decline in real estate-related investments, and their economies may not recover sufficiently to support income producing real estate at pre-event levels. These types of occurrences may increase over time or become more severe due to changes in weather patterns and other climate changes.

Although our investments in CRT and non-Agency securities may benefit from private mortgage insurance, this insurance may not be sufficient to cover losses.

In certain instances, mortgage loans referenced to our CRT securities or underlying our non-Agency RMBS may have private mortgage insurance. This insurance is often structured to absorb only a portion of the loss if a loan defaults and, as such, we may be exposed to losses on these loans greater than the mortgage insurance. Rescission and denial of mortgage insurance may affect the ability to collect on this insurance. If private mortgage insurers fail to remit insurance payments for insured portions of loans when losses are incurred and where applicable, whether due to breach of contract or to an insurer's insolvency, we may experience a loss on related CRT or non-Agency RMBS securities for the amount that was insured by such insurers.

Credit ratings assigned to our credit risk-oriented investments are subject to ongoing evaluation and revision and could be downgraded, adversely affecting the value of our investments.

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

Changes in credit spreads may adversely affect our profitability.

A significant component of the fair value of CRT and non-Agency securities and other credit risk-oriented investments is attributable to the credit spread, or the difference between the value the credit instrument and the value of a financial instrument with similar interest rate exposure, but with no credit risk, such as a U.S. Treasury note, and the credit instrument. Credit spreads are subject to market factors and can be highly volatile. In addition, hedging fair value changes associated with credit spreads can be inefficient and our hedging strategies are generally not designed to mitigate credit spread risk. Consequently, changes in credit spreads could adversely affect our profitability and financial condition.

The anticipated discontinuation of LIBOR and transition from LIBOR to an alternative reference rate could negatively impact our variable rate financial instruments and the dividends we pay on our fixed-to-floating rate cumulative redeemable preferred stock.

Our outstanding fixed-to-floating rate cumulative redeemable preferred stock agreements, variable rate investments, swaption agreements and certain of our interest rate swap and borrowing agreements are indexed to USD LIBOR. LIBOR is an indicative measure of the average interest rate at which major global banks could borrow from one another and is used extensively as a "benchmark" or "reference rate" for various financial and commercial contracts. LIBOR is quoted in multiple currencies and multiple time frames using data reported by private-sector banks. In July 2017, the regulator of LIBOR, the United Kingdom Financial Conduct Authority, announced its intent to phase out the use of LIBOR by the end of 2021, citing a number of banks' reluctance to participate in setting LIBOR rates and an insufficient number of interbank lending transactions from which LIBOR may be set.

In anticipation of the discontinuation of LIBOR, in the U.S., the Alternative Reference Rates Committee ("ARRC"), a group convened by the Federal Reserve Board and the Federal Reserve Bank of New York comprised of large U.S. financial institutions, regulators and other private and public-sector entities, has identified the Secured Overnight Financing Rate ("SOFR") as its preferred alternative rate for USD LIBOR. SOFR is a measure of the cost of borrowing cash overnight, collateralized by U.S.

Treasury securities, and is based on directly observable U.S. Treasury-backed repurchase transactions. Although the U.S. Treasury-backed overnight repo market is a highly liquid, there is currently no robust market for determining, forward-looking, SOFR term rates. Additionally, certain of our LIBOR based contracts that may be in effect at the time of LIBOR discontinuation may not contain fallback language in the event LIBOR is unavailable or may not contain fallback language that contemplates the permanent discontinuation of LIBOR. Consequently, there is uncertainty as to how our LIBOR based financial instruments may react to its discontinuation.

It also is possible that not all of our LIBOR based assets and liabilities will transition away from LIBOR at the same time, and it is possible that not all of our assets and liabilities will transition to the same alternative reference rate, in each case increasing the difficulty of hedging. Switching existing financial instruments and hedging transactions from LIBOR to SOFR requires calculations of a fixed spread to account for differences between LIBOR and SOFR. Industry organizations are attempting to structure the spread calculation in a manner that minimizes the possibility of value transfer between counterparties by virtue of the transition, but there is no assurance that the calculated spread will be fair and accurate or that similar financial instruments will use the same spread. We and other market participants have less experience understanding and modeling SOFR-based assets and liabilities than LIBOR-based assets and liabilities, increasing the difficulty of investing, hedging, and risk management. The process of transition may also involve operational risks. It is also possible that no transition will occur for certain financial instruments, meaning that those instruments would continue to be subject to the weaknesses of the LIBOR calculation process and/or, as is the potential case for our Series C fixed-to-floating rate preferred stock, that the determination of LIBOR would be dependent on banks voluntarily providing quotations of LIBOR to us based on specified procedures, which an insufficient number of banks may be willing or able to do, in which case the variable rate instrument could convert to a fixed-rate instrument based on the most recent rate in effect for the instrument. At this time, it is not possible to predict the effect of any such changes, any establishment of alternative reference rates or any other reforms to LIBOR that may be implemented. The nature of such potential changes, alternative reference rates or other reforms could adversely affect the market for or value of our financial instruments and the dividends we pay on our fixed-to-floating rate preferred stock on which the interest is determined by reference to LIBOR.

Regulations adopted by the U.S. Commodity Futures Trading Commission ("CFTC") and regulators of other countries could impose increased margin requirements and require additional operational and compliance costs.

The CFTC subjects certain swaps to clearing and exchange trading requirements, margin requirements, reporting and record keeping requirements and counterparties to business conduct rules. Current and future rules and regulations promulgated by the CFTC and regulators of other countries may adversely affect our ability to engage in derivative transactions or may increase the cost of our hedging activity and potentially result in higher collateral requirements. Such increased costs and potentially higher collateral requirements could have an adverse impact on our business and results of operations.

Our investments are recorded at fair value, which may not be readily determinable or may be materially different from the value that we ultimately realize upon their disposal.

We measure the fair value of our investments in accordance with guidance set forth in Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*. Fair value is only an estimate based on good faith judgment of the price at which an investment can be sold since market prices of investments can only be determined by negotiation between a willing buyer and seller. Our determination of the fair value of our investments includes inputs provided by third-party dealers and pricing services. Valuations of certain investments in which we invest may be difficult to obtain or unreliable. In general, dealers and pricing services heavily disclaim their valuations and we do not have recourse against them due to liabilities and other damages arising from inaccurate price quotes or other inputs used to determine the fair value of our investments. Depending on the complexity and illiquidity of a security, valuations of the same security can vary substantially from one dealer or pricing service to another. Moreover, fair value and estimates of fair value may fluctuate over short periods of time. For these reasons, the fair value at which our investments are recorded may not be an indication of their realizable value. Furthermore, the ultimate realization of the value of an asset depends on economic and other conditions that are beyond our control. Consequently, if we were to liquidate an asset, particularly in a forced liquidation, the realized value may be less than the amount at which the asset is recorded, which would negatively affect our results of operations and financial condition.

Actions of the U.S. Government, including the U.S. Congress, Fed, U.S. Treasury, Federal Housing Finance Administration ("FHFA") and other governmental and regulatory bodies may adversely affect our business.

U.S. Government actions may have an adverse impact on the financial markets. To the extent the markets do not respond favorably to any such actions or such actions do not function as intended, they could have broad adverse market implications and could negatively impact our financial condition and results of operations. New regulatory requirements could adversely affect the availability or terms of financing from our lender counterparties, could impose more stringent capital rules on financial institutions, could restrict the origination of residential mortgage loans and the formation of new issuances of mortgage-backed securities and could limit the trading activities of certain banking entities and other systemically significant organizations that are

important to our business. Together or individually these new regulatory requirements could materially affect our financial condition or results of operations in an adverse way.

Federal housing finance reform, including potential changes to the Federal conservatorship of Fannie Mae and Freddie Mac or to laws or regulations affecting the relationship between the GSEs and the U.S. Government, may adversely affect our business.

The payments of principal and interest we receive on our Agency RMBS are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. The guarantees on Agency securities created by Ginnie Mae are explicitly backed by the full faith and credit of the U.S. Government, whereas the guarantees on Agency securities created by Fannie Mae and Freddie Mac are not.

In September 2008, Fannie Mae and Freddie Mac were placed into the conservatorship of the FHFA, their federal regulator, pursuant to its powers under The Federal Housing Finance Regulatory Reform Act of 2008, a part of the Housing and Economic Recovery Act of 2008. In addition to FHFA becoming the conservator of Fannie Mae and Freddie Mac, the U.S. Department of the Treasury has provided a liquidity backstop to Fannie Mae and Freddie Mac to ensure their financial stability. Shortly after Fannie Mae and Freddie Mac were placed in federal conservatorship, the Secretary of the U.S. Treasury suggested that the guarantee payment structure of Fannie Mae and Freddie Mac in the U.S. housing finance market should be re-examined.

The release of the Presidential Memorandum on Federal Housing Finance Reform in March 2019, which directed the Secretary of the Treasury to develop a plan to end GSE conservatorship, and housing finance reform plans by both the Treasury Department and the Department of Housing and Urban Development in September 2019, coupled with new leadership at the FHFA, has elevated the potential for administrative and/or legislative action to affect structural GSE and federal housing reform. Consequently, the U.S. Treasury could also stop providing credit support to Fannie Mae and Freddie Mac in the future, the future roles of Fannie Mae and Freddie Mac could be significantly modified and/or the nature of their guarantee obligations could be considerably limited relative to historical measurements.

If conservatorship were ended without legislative action to authorize an explicit government guarantee, Agency RMBS could be more difficult to finance, and the price of Agency RMBS could decline. Additionally, without a sufficiently robust U.S. government backstop, Fannie Mae and Freddie Mac Agency securities would likely no longer be fungible with one another, leading to a failure of the Uniform Mortgage Backed Security ("UMBS") TBA program, which is intended to improve the overall liquidity of Agency securities and help ensure the liquidity of the federal housing market. Changes to the nature of GSE guarantee obligations could also re-define what constitutes an Agency security. Consequently, ending GSE conservatorship without an explicit government guarantee (or a sufficient U.S. Treasury backstop) or the enactment of other federal housing reform measures could have broad adverse implications and negatively affect our financial position and results of operations.

We may be unable to acquire desirable investments due to competition, a reduction in the supply of new production Agency RMBS having the specific attributes we seek, and other factors.

We invest in Agency RMBS as well as other types of mortgage and mortgage-related residential and commercial mortgage-backed securities and other investments in, or related to, the housing, mortgage or real estate markets. Our profitability depends, in large part, on our ability to acquire our target assets at attractive prices.

We may seek assets that include specific attributes that affect their propensity for prepayment under certain market conditions or enable us to satisfy certain asset test requirements to maintain our REIT qualification status or exemption from regulation under the Investment Company Act (such as "whole pool" Agency RMBS). A sufficient supply of our target assets may not be available at attractive prices, or even available at all. We also may compete for these assets with a variety of other investors, including other REITs, specialty finance companies, public and private funds, government entities, commercial and investment banks, insurance companies and other financial institutions, who may have competitive advantages over us, such as a lower cost of funds and access to funding sources that may not be available to us.

Federal housing finance reform initiatives may also affect the supply of new production Agency RMBS "whole pool" securities. On May 13, 2014, the FHFA released its updated 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac, which set forth goals for the next phase of the Fannie Mae and Freddie Mac conservatorships, including a desire to build a new single-family securitization infrastructure for use by the GSEs and adaptable for use by other participants in the secondary market. Pursuant to this strategic plan and at the direction of the FHFA, Fannie Mae and Freddie Mac completed a joint initiative to develop a common mortgage backed security to be issued by the GSEs, commonly referred to as the Single Security Initiative, and began issuing UMBS in 2019. Concomitant with this initiative, the GSE's have adopted practices in issuing RMBS pools that have impacted the supply of new issuance "whole pool" securities. In November 2019, the FHFA issued a request for information concerning the GSE's pooling practices, which included some recommendations that, if implemented, would require the GSE's to predominantly issue large multi-lender mortgage pools and would constrain issuances of specified mortgage pools. This proposal engendered significant opposition from many sectors of the housing finance industry, but its

adoption as a whole or in part remains uncertain. Some other housing finance reform proposals that have been made would seek to implement more stringent guidelines that reduce the types and sizes of mortgage loans eligible to be purchased by the GSEs. The extent to which any of these initiatives will be implemented remains uncertain, but each of them may limit the overall supply of “whole pool” Agency RMBS with desirable prepayment and other characteristics.

Consequently, we cannot guarantee that we will be able to obtain a sufficient level of desirable investments, which could negatively impact our ability to achieve our target leverage ratio, raise additional equity at otherwise opportune times, continue to maintain our REIT qualification or exemption from regulation under the Investment Company Act, or sufficiently reduce our exposure to prepayment, extension and other risks, which could negatively impact our financial condition and results of operation.

Changes to the U.S. federal income tax code could have a material impact on the residential mortgage market, which could impact the pricing of RMBS.

Changes to the federal income tax code pertaining to the deductibility of home mortgage interest and the treatment of other items related to home ownership can negatively impact the housing market and pricing of RMBS. Most recently, the Tax Cuts and Jobs Act (“TCJA”), which generally went into effect on January 1, 2018, set limits on deductions of state and local income and property taxes to an aggregate amount of \$10,000 and modified the amount of residential mortgage interest that is deductible, limiting the deduction available for mortgage interest by reducing the amount of mortgage debt that can qualify from \$1 million to \$750,000, subject to grandfathering mortgage debt outstanding at the time of enactment. In addition, the TCJA eliminated the home equity mortgage interest deduction. Absent future legislation, many of the changes affecting individual taxpayers under the TCJA will cease to apply after December 31, 2025 and will revert to their pre-2018 form, but it is expected that the number of individual taxpayers that itemize deductions have or will decrease significantly causing the income tax benefits of residential home ownership to decline materially. These factors, and future changes to the federal income tax code, could reduce the demand for home ownership, result in a decline in the pricing of residential real estate as well as alter the prepayment patterns of residential mortgages, all of which could have a significant impact on the pricing and returns of RMBS.

Our executive officers and other key personnel are critical to our success and the loss of any executive officer or key employee may materially adversely affect our business.

We operate in a highly specialized industry and our success is dependent upon the efforts, experience, diligence, skill and network of business contacts of our executive officers and key personnel. The departure of any of our executive officers and/or key personnel could have a material adverse effect on our operations and performance.

We are highly dependent on information systems and third parties, and systems failures or cybersecurity incidents could significantly disrupt our business, which may, in turn, negatively affect the market price of our common stock and our ability to operate our business.

Our business is highly dependent on communications and information systems. Any failure or interruption of our systems or cyber-attacks or security breaches of our networks or systems could cause delays or other problems in our securities trading activities, including mortgage-backed securities trading activities. A disruption or breach could also lead to unauthorized access to and release, misuse, loss or destruction of our confidential information or personal or confidential information of our employees or third parties, which could lead to regulatory fines, costs of remediating the breach, reputational harm, financial losses, litigation and increased difficulty doing business with third parties that rely on us to meet their own data protection requirements. In addition, we also face the risk of operational failure, termination or capacity constraints of any of the third parties with which we do business or that facilitate our business activities, including clearing agents or other financial intermediaries we use to facilitate our securities transactions, if their respective systems experience failure, interruption, cyberattacks, or security breaches. We may face increased costs as we continue to evolve our cyber defenses in order to contend with changing risks. These costs and losses associated with these risks are difficult to predict and quantify but could have a significant adverse effect on our operating results. Additionally, the legal and regulatory environment surrounding information privacy and security in the U.S. and international jurisdictions is constantly evolving.

Computer malware, viruses, computer hacking and phishing attacks have become more prevalent in our industry and we are from time to time subject to such attempted attacks. We rely heavily on financial, accounting and other data processing systems maintained by us and by third parties with whom we contract for information technology, network, data, storage and other related services. Although we have not detected a material cybersecurity breach to date, other financial services institutions have reported material breaches of their systems, some of which have been significant. Even with all reasonable security efforts, not every breach can be prevented or even detected. It is possible that we or the third parties with whom we contract have experienced an undetected breach. There is no assurance that we, or the third parties that facilitate our business activities, have not or will not experience a breach. It is difficult to determine what, if any, negative impact may directly result from any specific interruption or cyber-attacks or security breaches of our networks or systems (or the networks or systems of third parties that facilitate our

business activities) or any failure to maintain performance, reliability and security of our technical infrastructure, but such computer malware, viruses, and computer hacking and phishing attacks may negatively affect our operations.

Risks Related to Our Taxation as a REIT

Our failure to qualify as a REIT would have adverse tax consequences.

We believe that we operate in a manner that allows us to qualify as a REIT for U.S. federal income tax purposes under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, and Treasury Regulations promulgated thereunder. We plan to continue to meet the requirements for taxation as a REIT. The determination that we are a REIT requires an analysis of various factual matters and circumstances that may not be totally within our control and our compliance with the annual REIT income and quarterly asset requirements depends upon our ability to successfully manage the composition of our income and assets on an ongoing basis. For example, to qualify as a REIT, at least 75% of our gross income must come from real estate sources and 95% of our gross income must come from real estate sources and certain other sources that are itemized in the REIT tax laws. Additionally, our ability to satisfy the REIT asset tests depends upon our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Furthermore, the proper classification of an instrument as debt or equity for federal income tax purposes may be uncertain in some circumstances, which could affect the application of the REIT asset requirements. We are also required to distribute to stockholders at least 90% of our REIT taxable income (determined without regard to the deduction for dividends paid and by excluding any net capital gain).

If we fail to qualify as a REIT in any tax year, we would be subject to U.S. federal and state corporate income tax on our taxable income at regular corporate rates, and dividends paid to our stockholders would not be deductible by us in computing our taxable income. Also, unless the IRS granted us relief under certain statutory provisions, we would remain disqualified as a REIT for four years following the year we first fail to qualify. If we fail to qualify as a REIT, we would have to pay significant income taxes and would, therefore, have less money available for investments or for distributions to our stockholders. This would likely have a significant adverse effect on the value of our equity. In addition, the tax law would no longer require us to make distributions to our stockholders.

If we should fail to satisfy one or more requirements for REIT qualification, we may still qualify as a REIT if there is reasonable cause for the failure and not due to willful neglect and other applicable requirements are met, including completion of applicable IRS filings. It is not possible to state whether we would be entitled to the benefit of these relief provisions in all circumstances. If these relief provisions are inapplicable, we will not qualify as a REIT. Furthermore, if we satisfy the relief provisions and maintain our qualification as a REIT, we may be still subject to a penalty tax. The amount of the penalty tax will be at least \$50,000 per failure, and, in the case of certain asset test failures, will be determined as the amount of net income generated by the assets in question multiplied by the highest U.S. federal corporate tax rate in effect at the time of the failure if that amount exceeds \$50,000 per failure, and, in case of income test failures, will be a 100% tax on an amount based on the magnitude of the failure, as adjusted to reflect the profit margin associated with our gross income.

New legislation or administrative or judicial action, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to remain qualified as a REIT or it could otherwise adversely affect REITs and their stockholders.

The present U.S. federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect our ability to maintain our REIT status and/or the federal income tax treatment of an investment in us. The federal income tax rules dealing with REITs constantly are under review by persons involved in the legislative process, the IRS and the U.S. Treasury Department, which results in statutory changes as well as frequent revisions to regulations and interpretations. Revisions in Federal tax laws and interpretations thereof could affect or cause us to change our investments and affect the tax considerations of an investment in us.

REIT distribution requirements could adversely affect our ability to execute our business plan.

We generally must distribute annually at least 90% of our taxable income, subject to certain adjustments and excluding any net capital gain, for U.S. federal and state corporate income tax not to apply to earnings that we distribute. Distributions of our taxable income must generally occur in the taxable year to which they relate, or in the following taxable year if declared before we timely file our tax return for the year and if paid with or before the first regular dividend payment after such declaration. We may also elect to retain, rather than distribute, our net long-term capital gains and pay tax on such gains if required, in which case, we could elect for our stockholders to include their proportionate share of such undistributed long-term capital gains in income, and to receive a corresponding credit for their share of the tax that we paid. Our stockholders would then increase the adjusted basis of their stock by the difference between (a) the amounts of capital gain dividends that we designated and that they include in their taxable income, minus (b) the tax that we paid on their behalf with respect to that income. We intend to make distributions

to our stockholders to comply with the REIT qualification requirements of the Internal Revenue Code, which limits our ability to retain earnings and thereby replenish or increase capital from operations.

To the extent that we satisfy this distribution requirement, but distribute less than 100% of our taxable income, we will be subject to U.S. federal and state corporate income tax on our undistributed taxable income. Furthermore, if we should fail to distribute during each calendar year at least the sum of (a) 85% of our REIT ordinary income for such year, (b) 95% of our REIT capital gain net income for such year, and (c) any undistributed taxable income from prior periods, we would be subject to a non-deductible 4% excise tax on the excess of such required distribution over the sum of (x) the amounts actually distributed, (y) the amounts of income we retained and on which we have paid corporate income tax and (z) any excess distributions from prior periods.

From time to time, we may generate taxable income greater than our reported income prepared in accordance with GAAP. Differences in the timing of the recognition of taxable income and deductible expenses and the actual receipt or disbursement of cash may also occur. For example, if we purchase mortgage securities at issuance with a discount, we are generally required to accrete the discount into taxable income prior to receiving the cash proceeds. In addition, we generally will be required to take certain amounts into income no later than the time such amounts are reflected on certain financial statements. The application of this rule may require the accrual of, among other categories of income, income with respect to certain debt instruments or mortgage-backed securities, such as original issue discount or market discount, earlier than would be the case under the general tax rules, although the precise application of this rule is unclear at this time. This rule generally is effective for tax years beginning after December 31, 2017 or, for debt instruments or mortgage-backed securities issued with original issue discount, for tax years beginning after December 31, 2018. Moreover, we are not allowed to reduce our taxable income for a net capital loss incurred; instead, the net capital loss may be carried forward for a period of up to five years and applied against future capital gains subject to our ability to generate sufficient capital gains, which cannot be assured. If we do not have funds available in these situations, we could be required to borrow funds on unfavorable terms, sell investments at disadvantageous prices or distribute amounts that would otherwise be invested in future acquisitions to make distributions sufficient to maintain our qualification as a REIT or avoid corporate income tax and the 4% annual excise tax. These alternatives could increase our costs and reduce our stockholders' equity. Thus, compliance with the REIT requirements may hinder our ability to grow, which could adversely affect the value of our common stock.

We may in the future choose to pay dividends in our own stock, in which case stockholders may be required to pay income taxes in excess of cash dividends received.

We may in the future distribute taxable dividends that are payable in cash and shares of our common stock at the election of each stockholder. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current and accumulated earnings and profits for U.S. federal income tax purposes. As a result, stockholders may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. If a U.S. stockholder sells the stock that it receives as a dividend to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to certain non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our common stock to pay taxes owed on dividends, it may put downward pressure on the trading price of our common stock.

Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we remain qualified for taxation as a REIT, we may nonetheless be subject to certain federal, state and local taxes on our income and assets, including the following items. Any of these or other taxes we may incur would decrease cash available for distribution to our stockholders.

- Regular U.S. federal and state corporate income taxes on any undistributed taxable income, including undistributed net capital gains.
- A non-deductible 4% excise tax if the actual amount distributed to our stockholders in a calendar year is less than a minimum amount specified under Federal tax laws.
- Corporate income taxes on the earnings of subsidiaries, to the extent that such subsidiaries are subchapter C corporations and are not qualified REIT subsidiaries or other disregarded entity for federal income tax purposes.
- A 100% tax on certain transactions between us and our TRSs that do not reflect arm's-length terms.
- If we acquire appreciated assets from a corporation that is not a REIT (i.e., a corporation taxable under subchapter C of the Internal Revenue Code) in a transaction in which the adjusted tax basis of the assets in our hands is determined by reference to the adjusted tax basis of the assets in the hands of the subchapter C corporation, we may be subject

to tax on such appreciation at the highest corporate income tax rate then applicable if we subsequently recognize a gain on a disposition of any such assets during the five-year period following their acquisition from the subchapter C corporation.

- A 100% tax on net income and gains from "prohibited transactions"
- Penalty taxes and other fines for failure to satisfy one or more requirements for REIT qualification.

Complying with REIT requirements may cause us to forgo otherwise attractive opportunities.

To remain qualified as a REIT for U.S. federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts that we distribute to our stockholders and the ownership of our stock. We may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution, and we may be unable to pursue investments that would be otherwise advantageous to us to remain qualified as a REIT. Thus, compliance with the REIT requirements may hinder our ability to make and, in certain cases, to maintain ownership of, certain attractive investments.

Complying with REIT requirements may force us to liquidate otherwise attractive investments.

To remain qualified as a REIT, we must ensure that, at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified real estate assets. The remainder of our investments in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 20% of the value of our total assets can be represented by securities of one or more TRSs. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required sell otherwise attractive investments from our investment portfolio. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

The failure of assets subject to repurchase agreements to qualify as real estate assets could adversely affect our ability to remain qualified as a REIT.

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

Liquidation of assets may jeopardize our REIT qualification or create additional tax liability for us.

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

Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.

The REIT provisions of the Internal Revenue Code could substantially limit our ability to hedge our liabilities. Any income from a properly designated hedging transaction to manage risk of interest rate changes with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, to acquire or carry real estate assets generally does not constitute "gross income" for purposes of the 75% or 95% gross income tests. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both gross income tests. As such, we may have to limit our use of advantageous hedging techniques or implement those hedges through our TRS. This could increase the cost of our hedging activities as our TRS would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in our TRS will generally not provide any tax benefit, except for being carried forward against future taxable income in the TRS.

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

There is no direct authority with respect to the qualification of TBAs as real estate assets or U.S. Government securities for purposes of the 75% asset test or the qualification of income or gains from dispositions of TBAs as gains from the sale of real property or other qualifying income for purposes of the 75% gross income test. However, we treat our TBAs as qualifying assets for purposes of the REIT 75% asset test, and we treat income and gains from our TBAs as qualifying income for purposes of the 75% gross income test, based on an opinion of Skadden, Arps, Slate, Meagher & Flom LLP substantially to the effect that (i) for purposes of the REIT asset tests, our ownership of a TBA should be treated as ownership of the underlying Agency RMBS, and (ii) for purposes of the 75% REIT gross income test, any gain recognized by us in connection with the settlement of our TBAs should be treated as gain from the sale or disposition of the underlying Agency RMBS. Opinions of counsel are not binding on the IRS, and no assurance can be given that the IRS will not successfully challenge the conclusions set forth in such opinions. In addition, it must be emphasized that the opinion of Skadden, Arps, Slate, Meagher & Flom LLP is based on various assumptions relating to our TBAs and is conditioned upon fact-based representations and covenants made by our management regarding our TBAs. No assurance can be given that the IRS would not assert that such assets or income are not qualifying assets or income. If the IRS were to successfully challenge the opinion of Skadden, Arps, Slate, Meagher & Flom LLP, we could be subject to a penalty tax or we could fail to remain qualified as a REIT if a sufficient portion of our assets consists of TBAs or a sufficient portion of our income consists of income or gains from the disposition of TBAs.

Qualifying as a REIT involves highly technical and complex provisions of the Internal Revenue Code.

Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. Our qualification as a REIT depends on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. In addition, our ability to satisfy the requirements to remain qualified as a REIT depends in part on the actions of third parties over which we have no control or only limited influence, including cases where we own an equity interest in an entity that is classified as a partnership for federal income tax purposes.

The tax on prohibited transactions could limit our ability to engage in certain transactions.

Net income that we derive from a prohibited transaction is subject to a 100% tax. The term "prohibited transaction" generally includes a sale or other disposition of property that is held primarily for sale to customers in the ordinary course of a trade or business by us or by a borrower that has issued a shared appreciation mortgage or similar debt instrument to us. We could be subject to this tax if we were to dispose of or structure CMOs in a manner that was treated as a prohibited transaction for federal income tax purposes.

We intend to conduct our operations so that no asset that we own (or are treated as owning) at the REIT level will be treated as, or as having been, held for sale to customers, and that a sale of any such asset will not be treated as having been in the ordinary course of our business. As a result, we may choose not to engage in certain transactions at the REIT level that might otherwise be beneficial to us. In addition, whether property is held "primarily for sale to customers in the ordinary course of a trade or business" depends on the particular facts and circumstances. No assurance can be given that any property that we sell will not be treated as property held for sale to customers, or that we can comply with certain safe-harbor provisions of the Internal Revenue Code that would prevent such treatment. The 100% tax does not apply to gains from the sale of property that is held through a TRS or other taxable corporation, although such income will be subject to tax in the hands of the corporation at regular corporate rates. We intend to structure our activities to avoid prohibited transaction characterization.

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

Distributions with respect to our common stock and gains from the sale of our common stock should generally not constitute unrelated business taxable income to a tax-exempt investor. However, there are certain exceptions to this rule. For example, if (i) all or a portion of our assets are subject to the rules relating to "taxable mortgage pools" or we hold residual interests in a real estate mortgage investment conduit (or "REMIC"); (ii) we are a "pension held REIT;" (iii) a tax-exempt stockholder has incurred debt to purchase or hold our common stock; or (iv) a tax-exempt stockholder is classified as a social club, voluntary employee benefit association, supplemental unemployment benefit trust or a qualified group legal services plan, then a portion of our distributions to tax-exempt stockholders and, in the case of stockholders described in clauses (iii) and (iv), gains realized on the sale of our common stock by tax-exempt stockholders may be subject to U.S. federal income tax as unrelated business taxable income under the Internal Revenue Code.

Our inability to deduct for tax purposes compensation paid to our executives could require us to increase our distributions to stockholders or pay entity level taxes to maintain our REIT status.

Section 162(m) of the Internal Revenue Code prohibits publicly held corporations from taking a tax deduction for annual compensation in excess of \$1 million paid to any of the corporation's "covered employees." Prior to the enactment of the TCJA, a publicly held corporation's covered employees included its chief executive officer and the three other most highly compensated executive officers (other than the chief financial officer), and certain "performance-based compensation" was excluded from the \$1 million cap. The TCJA made certain changes to Section 162(m), effective for taxable years beginning after December 31, 2017. These changes include, among others, expanding the definition of "covered employee" to include the chief financial officer and repealing the performance-based compensation exception to the \$1 million cap, subject to certain transition rules. The TCJA also added that once an individual becomes a covered employee after December 31, 2016, that individual will remain a covered employee for all future years including after termination or death. Compensation paid to "covered employees" in excess of the 162(m) deductibility limit increases our taxable income compared to fully deductible compensation and, as a result, increases the amount of dividends we must distribute to stockholders to maintain our REIT status and/or to avoid U.S. federal and state income tax, which could adversely affect our financial condition.

Risks Related to Our Business Structure

Loss of our exemption from regulation pursuant to the Investment Company Act would adversely affect us.

We conduct our business so as not to become regulated as an investment company under the Investment Company Act in reliance on the exemption provided by Section 3(c)(5)(C) of the Investment Company Act. Section 3(c)(5)(C), as interpreted by the staff of the SEC, requires that: (i) at least 55% of our investment portfolio consists of "mortgages and other liens on and interest in real estate," or "qualifying real estate interests," and (ii) at least 80% of our investment portfolio consists of qualifying real estate interests plus "real estate-related assets."

The specific real estate related assets that we acquire are limited by the provisions of the Investment Company Act and the rules and regulations promulgated thereunder. In satisfying the 55% requirement, we treat Agency RMBS issued with respect to an underlying pool of mortgage loans in which we directly or indirectly hold all the certificates issued by the pool ("whole pool" securities) as qualifying real estate interests based on pronouncements of the SEC staff. We treat partial pool securities, CRT and other mortgage related securities as real estate-related assets. Consequently, our ability to satisfy the exemption under the Investment Company Act is dependent upon our ability to acquire and hold on a continuous basis a sufficient amount of whole pool securities. The availability of whole pool securities may be adversely impacted by a variety of factors, including GSE pooling practices, which can change over time, housing finance reform initiatives and competition for whole pool securities with other mortgage REITs.

Additionally, if the SEC determines that any of our securities are not qualifying interests in real estate or real estate-related assets, adopts a contrary interpretation with respect to these securities or otherwise believes we do not satisfy the above exceptions or changes its interpretation of the above exceptions, we could be required to restructure our activities or sell certain of our assets. As such, we cannot guarantee that we will be able to acquire or hold a sufficient amount of whole pool securities to maintain our exemption under the Investment Company Act, and our compliance with these requirements may at times lead us to adopt less efficient methods of financing certain of our investments or to forego acquiring higher yielding securities. Importantly, if we fail to qualify for this exemption, our ability to use leverage would be substantially reduced and we would be unable to conduct our business as we currently conduct it, which could materially and adversely affect our business.

Risks Related to Our Common Stock

The market price and trading volume of our common stock may be volatile.

The market price and trading volume of our common stock may be highly volatile and subject to wide fluctuations. Price variations may be unrelated to our operating performance. If the market price of our common stock declines significantly, stockholders may be unable to resell shares at a gain. Further, fluctuations in the trading price of our common stock may adversely affect the liquidity of the trading market for our common stock and our ability to raise additional equity capital.

Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include:

- actual or anticipated variations in our quarterly operating results or distributions;
- changes in our earnings estimates or publication of research reports about us or the real estate or specialty finance industry;
- increases in market interest rates that lead purchasers of our shares of common stock to demand a higher yield;

- changes in market valuations of similar companies;
- adverse market reaction to any increased indebtedness we incur in the future;
- issuance of additional equity securities;
- our repurchases of shares of our common stock;
- actions by institutional stockholders;
- additions or departures of key management personnel;
- speculation in the press or investment community;
- price and volume fluctuations in the stock market from time to time, which are often unrelated to our operating performance;
- changes in regulatory policies, tax laws and financial accounting and reporting standards, particularly with respect to REITs, or applicable exemptions from the Investment Company Act of 1940, as amended;
- actual or anticipated changes in our dividend policy and earnings or variations in operating results;
- any shortfall in revenue or net income or any increase in losses from levels expected by securities analysts;
- decreases in our net book value per share;
- loss of major repurchase agreement providers; and
- general market and economic conditions.

In addition, the price of our common stock may be below our reported net book value per common share. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future.

Future offerings of debt securities, which would rank senior to our common and preferred upon our liquidation, and future offerings of equity securities, which would dilute our existing stockholders or may be senior to our common stock for the purposes of dividend and liquidating distributions, may adversely affect the market price of our common stock.

In the future, we may raise capital through the issuance of debt or equity securities. Upon liquidation, holders of our debt securities, if any, preferred stock and lenders with respect to other borrowings will be entitled to our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both. Our preferred stock has a preference on liquidating distributions and a preference on dividend payments that could limit our ability to pay dividends to the holders of our common stock. Sales of substantial amounts of our common stock, or the perception that these sales could occur, could have a material adverse effect on the price of our common stock. Because our decision to issue debt or equity securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of our common stock bear the risk of our future offerings reducing the market price of our common stock and diluting the value of their stock holdings in us.

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

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

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

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

An increase in market interest rates may cause a material decrease in our net book value and the market price of our common stock.

Market interest rate fluctuations and capital market conditions can have a significant adverse effect on our net book value and the market price of our common stock. For instance, rising interest rates would result in increased interest expense on our variable rate debt, thereby reducing cash flow and our ability to service our indebtedness and pay distributions. In addition, if market interest rates rise without an increase in our distribution rate, the market price of our common stock could decrease as potential investors may require a higher distribution yield on our common stock or seek other investments paying higher distributions or interest.

The stock ownership limit imposed by the Internal Revenue Code for REITs and our amended and restated certificate of incorporation may restrict our business combination opportunities.

To qualify as a REIT under the Internal Revenue Code, not more than 50% of our outstanding stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) at any time during the last half of each taxable year in which we qualify as a REIT. Our amended and restated certificate of incorporation, with certain exceptions, authorizes our Board of Directors to take the actions that are necessary and desirable to qualify as a REIT. Pursuant to our amended and restated certificate of incorporation, no person may beneficially or constructively own more than 9.8% in value or in number of shares, whichever is more restrictive, of our common or capital stock.

Our Board of Directors may grant an exemption from this 9.8% stock ownership limitation, in its sole discretion, subject to such conditions, representations and undertakings as it may determine are reasonably necessary. Pursuant to our amended and restated certificate of incorporation, our Board of Directors has the power to increase or decrease the percentage of common or capital stock that a person may beneficially or constructively own. However, any decreased stock ownership limit will not apply to any person whose percentage ownership of our common or capital stock is in excess of such decreased stock ownership limit until that person's percentage ownership of our common or capital stock equals or falls below the decreased stock ownership limit. Until such a person's percentage ownership of our common or capital stock falls below such decreased stock ownership limit, any further acquisition of our common or capital stock will be in violation of the decreased stock ownership limit.

The ownership limits imposed by the tax law are based upon direct or indirect ownership by "individuals," but only during the last half of a tax year. The ownership limits contained in our amended and restated certificate of incorporation apply to the ownership at any time by any "person," which term includes entities. Any attempt to own or transfer shares of our common stock or capital stock in violation of these restrictions may result in the shares being transferred to a charitable trust or may be void. These ownership limitations are intended to assist us in complying with the tax law requirements, and to minimize administrative burdens. However, these ownership limits might also delay or prevent a transaction or a change in our control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

The stock ownership limitation contained in our amended and restated certificate of incorporation generally does not permit ownership of more than 9.8% of our common or capital stock and attempts to acquire our common or capital stock above this limit will be ineffective unless an exemption is granted by our Board of Directors.

As described above, our amended and restated certificate of incorporation generally prohibits beneficial or constructive ownership by any person of more than 9.8% (by value or by number of shares, whichever is more restrictive) of our common or capital stock, unless exempted by our Board of Directors. Our amended and restated certificate of incorporation's constructive ownership rules are complex and may cause the outstanding stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of 9.8% or less of the outstanding stock by an individual or entity or group could result in constructive ownership greater than 9.8% and thus be subject to our amended and restated certificate of incorporation's ownership limit. Any attempt to own or transfer shares of our common or preferred stock more than the ownership limit without the consent of the Board of Directors will result in the shares being automatically transferred to a charitable trust or, if the transfer to a charitable trust would not be effective, such transfer being treated as invalid from the outset.

Anti-takeover provisions in our amended and restated certificate of incorporation and bylaws could discourage a change of control that our stockholders may favor, which could also adversely affect the market price of our common stock.

Provisions in our amended and restated certificate of incorporation and bylaws may make it more difficult and expensive for a third-party to acquire control of us, even if a change of control would be beneficial to our stockholders. We could issue a series of preferred stock to impede the completion of a merger, tender offer or other takeover attempt. The anti-takeover provisions in our amended and restated certificate of incorporation and bylaws may impede takeover attempts, or other transactions, that may be in the best interests of our stockholders. In addition, the market price of our common stock could be adversely affected to the

extent that provisions of our amended and restated certificate of incorporation and bylaws discourage potential takeover attempts, or other transactions, that our stockholders may favor.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We do not own any property. Our executive offices are in Bethesda, Maryland.

Item 3. Legal Proceedings

AGNC was named as a nominal defendant in three stockholder derivative lawsuits filed against the Company and certain of our current and former directors and officers. One case, *H&N Management Group and AFF Cos. Frozen Money Purchase Plan v. Couch, et al.*, (the “Delaware Action”) was filed in the Chancery Court of the State of Delaware on October 21, 2016. The plaintiff in the Delaware Action alleged breach of fiduciary duty and corporate waste by certain of our current and former directors and officers relating to decisions not to terminate our management agreement with our former external manager (the “Renewal Claims”) and the internalization of our management through the acquisition of our manager, which was completed on July 1, 2016 (“Internalization Claims”). The plaintiff also named Ares Capital Corporation, Ivy Hill Asset Management, LLC and ACAS, LLC, (collectively, the “Ares Defendants”) as defendants and alleged that they aided and abetted and were unjustly enriched by the supposed breaches of duty (the “Ares Claims”). Following fact discovery, the parties to the Delaware Action reached a settlement, which was approved by the Delaware Chancery Court on December 4, 2019 and has now become final. Pursuant to the terms of the settlement, as approved, in February 2020, the Company received aggregate settlement payments of approximately \$25.6 million on behalf of all defendants, and the plaintiff attorneys were awarded approximately \$9.8 million in fees. The settlement also releases the Company, the defendants and certain of their respective affiliates from liability, subject to the terms and conditions of the settlement.

The other two cases, *Clem v. Kain, et al.*, and *Wall v. Kain, et al.*, were filed in the U.S. District Court in the District of Maryland on September 21, 2016 and September 30, 2016, respectively, and were consolidated on October 25, 2016, under the name *In re American Capital Agency Stockholder Derivative Litigation*, (collectively, the “Maryland Action”). The Maryland Action involved allegations of breach of fiduciary duties and aiding and abetting against the same individuals related to substantially the same events (i.e., Renewal Claims, Internalization Claims and Ares Claims) as alleged in the Delaware Action. Upon joint request of the parties, the District Court dismissed the Maryland Action with prejudice on January 21, 2020.

Item 4. Mine Safety Disclosures

Not applicable.

PART II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Quarterly Stock Prices and Dividend Declarations

Our common stock is listed on the Nasdaq Global Select Market under the symbol "AGNC." As of January 31, 2020, we had 1,181 stockholders of record. Most of the shares of our common stock are held by brokers and other institutions on behalf of stockholders. The following table sets forth the range of high and low sales prices of our common stock as reported on the Nasdaq Global Select Market and dividends declared on our common stock for fiscal years 2019 and 2018:

	Common Stock		
	Sales Prices		Dividends Declared ¹
	High	Low	
Fiscal Year 2019			
Fourth Quarter	\$ 18.09	\$ 15.60	\$ 0.48
Third Quarter	\$ 17.60	\$ 14.51	\$ 0.48
Second Quarter	\$ 18.29	\$ 16.19	\$ 0.50
First Quarter	\$ 18.20	\$ 17.40	\$ 0.54
Fiscal Year 2018			
Fourth Quarter	\$ 18.76	\$ 16.96	\$ 0.54
Third Quarter	\$ 19.72	\$ 18.51	\$ 0.54
Second Quarter	\$ 19.26	\$ 18.46	\$ 0.54
First Quarter	\$ 20.26	\$ 17.84	\$ 0.54

1. Represents the sum of monthly dividends declared during each period presented.

We intend to pay dividends monthly to our common stockholders and to continue to qualify for the tax benefits accorded to a REIT under the Internal Revenue Code. We have not established a minimum dividend payment level and our ability to pay dividends may be adversely affected for the reasons described under the caption "Risk Factors." Additionally, holders of depositary shares underlying our preferred stock are entitled to receive cumulative cash dividends before holders of our common stock are entitled to receive any dividends. (For a description of our preferred stock please refer to Note 9 to the Consolidated Financial Statements included under Item 8 of this Annual Report on Form 10-K). All distributions to stockholders will be made at the discretion of our Board of Directors and will depend on our earnings, financial condition, maintenance of our REIT status and other factors as our Board of Directors may deem relevant from time to time.

The following table summarizes the tax characterization of dividends declared on our common stock for fiscal years 2019 and 2018:

	Dividends Declared Per Share of Common Stock	Tax Characterization				
		Ordinary Income Per Share	Qualified Dividends	Long-Term Capital Gains Per Share	Non-Dividend Distributions ³	Section 199A Dividend ⁴
Fiscal Year 2019 ¹	\$ 2.02	\$ 1.159504	\$ —	\$ —	\$ 0.860496	\$ 1.159504
Fiscal Year 2018 ²	\$ 2.16	\$ 1.127208	\$ —	\$ —	\$ 1.032792	\$ 1.127208

1. Includes dividends declared during the 12-month period ended November 30, 2019. The dividend of \$0.16 per common share declared on December 10, 2019, which was paid on January 10, 2020, will be reported to stockholders as a fiscal year 2020 distribution for U.S. federal income tax purposes.
2. Includes dividends declared during the 12-month period ended November 30, 2018.
3. Also referred to as a "return of capital." Represents dividends paid in excess of our current and accumulated earnings and profit, or "E&P," which is a tax-based measure calculated by adjusting taxable income for items that are treated differently for E&P purposes, such as utilization of net capital loss carryforwards. A return of capital reduces the basis of a stockholder's investment in our common stock to the extent of such basis and is treated as capital gain thereafter.
4. Twenty percent of Section 199A dividends may be deducted in computing a U.S. non-corporate investor's taxable income. The deduction is subject to certain limitations calculated based on an investor's taxable ordinary income. For detailed rules regarding the section 199A deduction, stockholders should consult with their tax advisors.

Our stock transfer agent and registrar is Computershare Investor Services. Requests for information from Computershare can be sent to Computershare Investor Services, P.O. Box 43078, Providence, RI 02940-3078 and their telephone number is 1-800-733-5001.

Equity Compensation Plan Information

The following table summarizes information, as of December 31, 2019, concerning shares of our common stock authorized for issuance under our equity compensation plans, pursuant to which grants of equity-based awards, namely restricted stock units ("RSUs"), may be granted from time to time. See "Item 8. Financial Statements" for a description of our equity compensation plans.

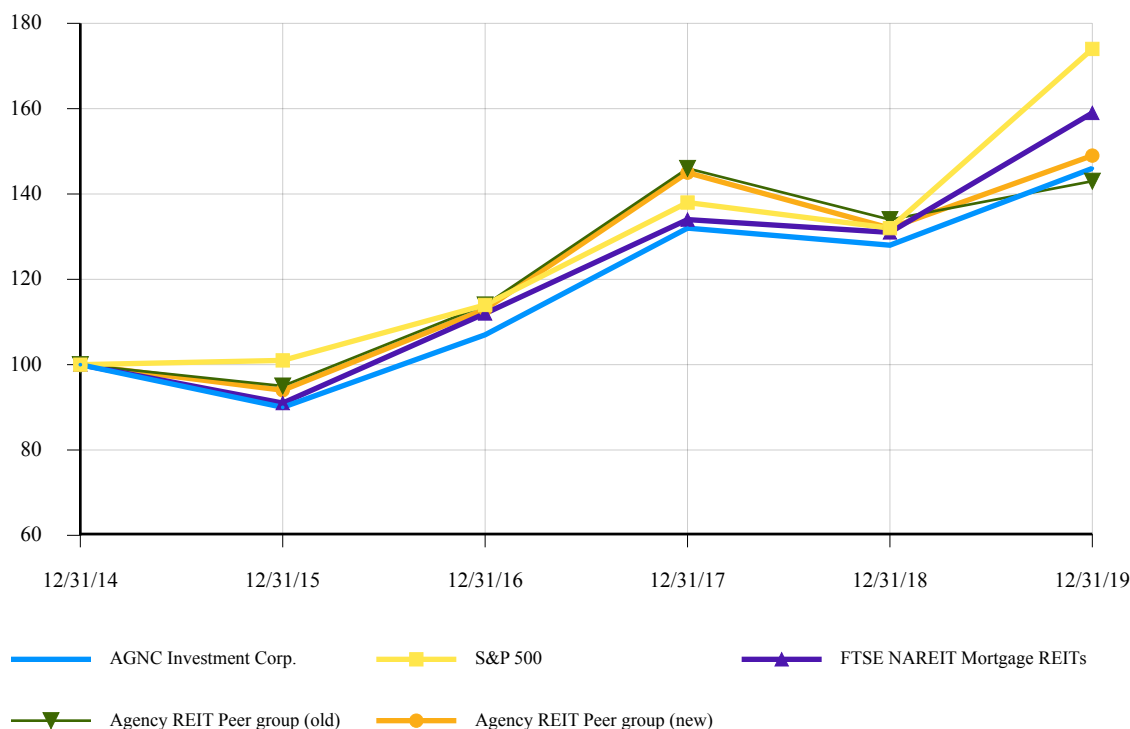
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights ¹	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column of this table) ²
Equity compensation plans approved by security holders	3,440,135	\$ —	6,413,631
Equity compensation plans not approved by security holders	—	—	—
Total	3,440,135	\$ —	6,413,631

- Includes (i) unvested time and performance-based RSU awards (unvested performance-based awards assume the maximum payout under the terms of the award); (ii) outstanding previously vested awards, if distribution of such awards has been deferred beyond the vesting date; and (iii) accrued dividend equivalent units on items (i) and (ii) through December 31, 2019.
- Available shares are reduced by items (i), (ii) and (iii) noted above and by shares issued for vested awards, net of units withheld to cover minimum statutory tax withholding requirements paid by us in cash on behalf of the employee.

Performance Graph

The following graph and table compare a stockholder's cumulative total return, assuming \$100 invested at December 31, 2014, with the reinvestment of all dividends, as if such amounts had been invested in: (i) our common stock; (ii) the stocks included in the Standard & Poor's 500 Stock Index ("S&P 500"); (iii) the stocks included in the FTSE NAREIT Mortgage REIT Index; (iv) an index of selected issuers in our peer group, composed of Annaly Capital Management, Inc., Anworth Mortgage Asset Corporation, Capstead Mortgage Corporation and Armour Residential REIT, Inc, (collectively, the "Agency REIT Peer Group (old)"); and (v) an updated index of peers adding Two Harbors Investment Corp, Invesco Mortgage Capital, Inc and Dynex Capital, Inc, to Agency REIT Peer Group (old) (collectively, the "Agency REIT Peer Group (new)").

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among AGNC Investment Corp., The S&P 500 Index,
The FTSE NAREIT Mortgage REITs Index, and Agency REIT Peer Group



* \$100 invested on 12/31/14 in stock or index, including reinvestment of dividends.
 Fiscal year ending December 31.
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	December 31,				
	2019	2018	2017	2016	2015
AGNC Investment Corp.	\$ 145.55	\$ 128.44	\$ 131.74	\$ 106.50	\$ 90.11
S&P 500	\$ 173.86	\$ 132.23	\$ 138.29	\$ 113.51	\$ 101.38
FTSE NAREIT Mortgage REITs	\$ 158.60	\$ 130.71	\$ 134.10	\$ 111.95	\$ 91.12
Agency REIT Peer Group (old) ¹	\$ 143.30	\$ 133.76	\$ 146.12	\$ 114.20	\$ 95.07
Agency REIT Peer Group (new) ¹	\$ 148.74	\$ 132.34	\$ 145.14	\$ 113.36	\$ 93.51

1. Agency REIT Peer Group annual return is calculated on a weighted basis by market cap at the end of the previous year.

The information in the share performance graph and table has been obtained from sources believed to be reliable, but neither its accuracy nor its completeness can be guaranteed. The historical information set forth above is not necessarily indicative of future performance. Accordingly, we do not make or endorse any predictions as to future share performance.

Item 6. Selected Financial Data

The following selected financial data is derived from our annual financial statements for the five years ended December 31, 2019. The selected financial data should be read in conjunction with the more detailed information contained in Item 8. *Financial Statements* and Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations* included in this Annual Report on Form 10-K:

(\$ in Millions, Except Per Share Amounts)	December 31,				
	2019	2018	2017	2016	2015
Balance Sheet Data					
Investment securities, at fair value	\$ 100,442	\$ 84,287	\$ 57,080	\$ 46,499	\$ 52,473
Total assets	\$ 113,082	\$ 109,241	\$ 70,376	\$ 56,880	\$ 57,021
Repurchase agreements and other debt	\$ 89,410	\$ 75,992	\$ 50,653	\$ 41,355	\$ 46,102
Total liabilities	\$ 102,041	\$ 99,335	\$ 61,622	\$ 49,524	\$ 49,050
Total stockholders' equity	\$ 11,041	\$ 9,906	\$ 8,754	\$ 7,356	\$ 7,971
Net book value per common share ¹	\$ 18.63	\$ 17.54	\$ 21.09	\$ 21.17	\$ 22.59
Tangible net book value per common share ²	\$ 17.66	\$ 16.56	\$ 19.69	\$ 19.50	N/A
	Fiscal Year				
	2019	2018	2017	2016	2015
Statement of Comprehensive Income Data					
Interest income	\$ 2,842	\$ 1,949	\$ 1,293	\$ 1,321	\$ 1,466
Interest expense	2,149	1,173	524	394	330
Net interest income	693	776	769	927	1,136
Other gain (loss), net	78	(547)	75	(199)	(782)
Operating expenses	83	100	73	105	139
Net income	688	129	771	623	215
Dividends on preferred stock	54	36	32	28	28
Issuance cost of redeemed preferred stock	6	—	6	—	—
Net income available to common stockholders	\$ 628	\$ 93	\$ 733	\$ 595	\$ 187
Net income (loss)	\$ 688	\$ 129	\$ 771	\$ 623	\$ 215
Other comprehensive income (loss), net	1,040	(598)	52	(331)	(496)
Comprehensive income (loss)	1,728	(469)	823	292	(281)
Dividends on preferred stock	54	36	32	28	28
Issuance cost of redeemed preferred stock	6	—	6	—	—
Comprehensive income (loss) available (attributable) to common stockholders	\$ 1,668	\$ (505)	\$ 785	\$ 264	\$ (309)
Weighted average number of common shares outstanding - basic	540.6	441.1	358.6	331.9	348.6
Weighted average number of common shares outstanding - diluted	541.4	441.4	358.7	331.9	348.6
Net income per common share - basic	\$ 1.16	\$ 0.21	\$ 2.04	\$ 1.79	\$ 0.54
Net income per common share - diluted	\$ 1.16	\$ 0.21	\$ 2.04	\$ 1.79	\$ 0.54
Comprehensive income (loss) per common share - basic	\$ 3.09	\$ (1.14)	\$ 2.19	\$ 0.80	\$ (0.89)
Comprehensive income (loss) per common share - diluted	\$ 3.08	\$ (1.14)	\$ 2.19	\$ 0.80	\$ (0.89)
Dividends declared per common share	\$ 2.00	\$ 2.16	\$ 2.16	\$ 2.30	\$ 2.48

Other Data (Unaudited) *	Fiscal Year				
	2019	2018	2017	2016	2015
Average investment securities - at par	\$ 89,234	\$ 60,733	\$ 45,198	\$ 47,101	\$ 51,759
Average investment securities - at cost	\$ 92,207	\$ 63,348	\$ 47,330	\$ 49,268	\$ 54,019
Net TBA dollar roll position - at par (as of period end)	\$ 7,322	\$ 7,152	\$ 15,474	\$ 10,916	\$ 7,295
Net TBA dollar roll position - at cost (as of period end)	\$ 7,404	\$ 7,252	\$ 15,739	\$ 11,312	\$ 7,430
Net TBA dollar roll position - at market value (as of period end)	\$ 7,429	\$ 7,322	\$ 15,742	\$ 11,165	\$ 7,444
Net TBA dollar roll position - at carrying value (as of period end) ³	\$ 25	\$ 70	\$ 3	\$ (147)	\$ 14
Average net TBA portfolio - at cost	\$ 9,262	\$ 14,697	\$ 16,859	\$ 10,329	\$ 7,547
Average total assets - at fair value	\$110,112	\$ 79,094	\$ 58,727	\$ 56,931	\$ 63,674
Average repurchase agreements and other debt outstanding ⁴	\$ 86,231	\$ 55,592	\$ 41,942	\$ 44,566	\$ 48,641
Average stockholders' equity ⁵	\$ 10,380	\$ 9,050	\$ 7,933	\$ 7,718	\$ 8,817
Average tangible net book value "at risk" leverage ⁶	9.7:1	8.3:1	8.0:1	7.5:1	6.4:1
Tangible net book value "at risk" leverage (as of period end) ⁷	9.4:1	9.0:1	8.1:1	7.7:1	6.8:1
Economic return on tangible common equity ⁸	18.7%	(4.9)%	12.1%	3.9%	(2.6)%
Expenses % of average total assets ⁹	0.08%	0.09 %	0.12%	0.17%	0.22 %
Expenses % of average assets, including average net TBA position ⁹	0.07%	0.08 %	0.09%	0.14%	0.20 %
Expenses % of average stockholders' equity ⁹	0.80%	0.81 %	0.92%	1.24%	1.58 %

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

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 and other intangible assets.
3. The carrying value of our net TBA position represents the difference between the market value and the cost basis of the TBA contract as of period-end and is reported in derivative assets/(liabilities), at fair value on our accompanying consolidated balances sheets.
4. Amount excludes U.S. Treasury repurchase agreements and TBA contracts. Other debt includes debt of consolidated VIEs.
5. Average stockholders' equity calculated as average month-ended stockholders' equity during the period.
6. Average tangible net book value "at risk" leverage is calculated by dividing the sum of daily weighted average mortgage borrowings outstanding (Agency and non-Agency MBS repurchase agreements, other debt and TBA securities (at cost)) for the period by the sum of average stockholders' equity adjusted to exclude goodwill and other intangible assets for the period. Leverage excludes U.S. Treasury repurchase agreements.
7. "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 and other intangible assets as of period end. Leverage excludes U.S. Treasury repurchase agreements.
8. Economic return on tangible common equity represents the sum of the change in tangible net book value per common share and dividends declared per share of common stock during the period over beginning tangible net book value per common share.
9. Expenses for fiscal year 2018 and 2016 have been adjusted to exclude one-time or non-recurring expenses. Fiscal year 2018 adjusted expenses exclude \$27 million of non-recurring expenses associated with the sale of MTGE Investment Corp., an entity we previously managed, and corresponding termination of MTGE's management agreement. Excluded amounts include the write-off of our intangible asset associated with our acquisition of the MTGE management agreement and other miscellaneous expenses. Fiscal year 2016 adjusted expenses exclude \$9 million of one-time expenses associated with our acquisition of AMM.

Item 7. 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 Annual Report on Form 10-K. Our MD&A is presented in eight sections:

- Executive Overview
- Financial Condition
- Summary of Critical Accounting Estimates
- Results of Operations
- Liquidity and Capital Resources
- Off-Balance Sheet Arrangements
- Aggregate Contractual Obligations
- Forward-Looking Statements

EXECUTIVE OVERVIEW

We are an internally managed 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 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 Fannie Mae and Freddie Mac, or by a U.S. Government agency, such as 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

Global equity and bond markets finished fiscal year 2019 on a positive note, as signs of stabilization in global economic growth and prospects of a "Phase 1" trade deal between the U.S. and China emerged. Notwithstanding the strong end to 2019, concerns over slower growth and trade tensions contributed to periods of pronounced interest rate volatility during the year, with the 10-year U.S. Treasury note rate declining from 2.68% at the start of the year to a multi-year low of 1.42%, before closing the year at 1.92%. Many major central banks responded to the growing global growth concerns by lowering short-term rates as well as implementing other forms of monetary policy accommodation during the year.

For its part, the U.S. Federal Reserve pivoted sharply from its campaign of raising short-term interest rates at the end of 2018 and, for the first time since 2008, lowered the federal funds target rate by 25 basis point rate cuts at each of its July, September, and October 2019 meetings. In August 2019, the Fed also suspended the runoff of its U.S. Treasury portfolio and began redeploying up to \$20 billion per month of paydowns from its Agency RMBS portfolio into Treasury securities and reinvesting paydowns in excess of \$20 billion into Agency RMBS, maintaining a larger balance sheet than the market had previously anticipated. Notwithstanding the Fed's more accommodative stance, repo rates remained elevated throughout the year compared to other short-term rates, and, in September, disruptions in the repo market led to a large spike in overnight rates. In response, the Fed reinstated daily open market repurchase operations at the end of the third quarter, thereby adding significant liquidity to the repo market. In October, the Fed announced additional measures to further stabilize the funding markets through monthly purchases of Treasury bills and an increase to its overnight and term open market operations. Together, these actions added in excess of \$400 billion of liquidity to the system as of the end of 2019. The Fed also announced that it would continue its monthly U.S. Treasury purchase program and its open market repurchase operations through the first half of 2020. Although specific future Fed actions, including continuation of these or other additional efforts, are uncertain, its actions added stability to the overnight repo markets at the end of December 2019, and, as such, we expect repo funding will return to more normal levels relative to the federal funds rate in 2020.

U.S. equities and other risk assets performed well during the year, reaching new highs as greater central bank accommodation outweighed concerns over global economic weakness. The performance of Agency RMBS, however, was mixed. During the first quarter, Agency RMBS outperformed U.S. Treasury and interest rate swap hedges but underperformed in the second and third quarters due to elevated prepayment concerns and a flattening yield curve. Late in the fourth quarter, the combination of easing trade tensions, increasing monetary accommodation and diminished prepayment concerns resulting from rising interest rates drove mortgage spreads meaningfully tighter and reversed much of the spread widening from the prior two quarters.

Despite these challenging conditions, our tangible economic return for the year was 18.7%, consisting of a \$1.10 increase in tangible net book value per common share and \$2.00 of dividends per common for the year. Asset selection and hedge repositioning drove much of our strong performance for the year.

Prepayment risk in the Agency RMBS market increased significantly over the course of the year as interest rates fell. A large percentage of our portfolio, however, consisted of specified Agency RMBS with favorable attributes that reduce the likelihood of prepayment. As a result, these assets meaningfully outperformed other more generic Agency RMBS. In addition, we proactively reduced our holdings of higher coupon, generic Agency RMBS in favor of lower coupon RMBS, which significantly reduced our exposure to faster prepayments while also taking advantage of compelling valuations.

On the hedge side, we increased our interest rate hedges from 77% of our aggregate funding liabilities as of the start of the year to 102% at year-end. We also adjusted the duration and composition of our hedge portfolio, taking advantage of material repricing events in the interest rate swap market during the year. As a result, despite significant interest rate volatility, our duration gap, which is a measure of the mismatch between the interest sensitivity of our assets and liabilities, inclusive of interest rate hedges, remained relatively stable during year and was 0.4 years as of December 31, 2019, compared to 0.2 years as of December 31, 2018. (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-K.)

Our net spread and dollar roll income (a non-GAAP measure) was \$1.97 per common share for the year, compared to \$2.40 per common share for 2018. Excluding "catch-up" premium amortization, net spread and dollar roll income was \$2.16 per common share for the year, a decline from \$2.35 per common share for 2018 largely due to higher funding costs resulting from multiple Fed rate hikes in prior years and persistently elevated repo funding costs during 2019. Our net interest spread, which represents the difference in the yield on our assets (excluding "catch-up" amortization and including TBA securities) and our cost of funds, was 1.18% for 2019, compared to 1.27% for 2018. (For additional information regarding non-GAAP measures and reconciliations to the the most comparable GAAP measure please refer to *Results of Operations* later within this MD&A.)

Our average forecasted portfolio CPR as of December 31, 2019 was 10.8%, an increase from 7.9%, consistent with the decline in longer-term rates. Our actual portfolio CPR averaged 11.4% for the year, an increase from 8.7% for 2018 but well below prepayment rates observed on other generic, higher coupon Agency RMBS. Our tangible net book value "at risk" leverage increased to 9.4x as of December 31, 2019, from 9.0x as of December 31, 2018, and averaged 9.7x for the year, compared to 8.3x for 2018, as Agency RMBS valuations relative to interest rate hedges during the year enhanced our expected risk-adjusted returns.

Market Information

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

Interest Rate/Security Price ¹	Dec. 31, 2018	Mar. 31, 2019	June 30, 2019	Sept. 30, 2019	Dec. 31, 2019	Dec. 31, 2019 vs Dec. 31, 2018
Target Federal Funds Rate:						
Target Federal Funds Rate - Upper Band	2.50%	2.50%	2.50%	2.00%	1.75%	-0.75 bps
LIBOR:						
1-Month	2.50%	2.49%	2.40%	2.02%	1.76%	-0.74 bps
3-Month	2.81%	2.60%	2.32%	2.09%	1.91%	-0.90 bps
U.S. Treasury Security Rate:						
2-Year U.S. Treasury	2.49%	2.26%	1.75%	1.62%	1.57%	-0.92 bps
5-Year U.S. Treasury	2.51%	2.23%	1.77%	1.54%	1.69%	-0.82 bps
10-Year U.S. Treasury	2.68%	2.41%	2.01%	1.66%	1.92%	-0.76 bps
30-Year U.S. Treasury	3.01%	2.81%	2.53%	2.11%	2.39%	-0.62 bps
Interest Rate Swap Rate:						
2-Year Swap	2.66%	2.38%	1.81%	1.63%	1.70%	-0.96 bps
5-Year Swap	2.57%	2.28%	1.77%	1.50%	1.73%	-0.84 bps
10-Year Swap	2.71%	2.41%	1.96%	1.56%	1.90%	-0.81 bps
30-Year Swap	2.84%	2.58%	2.21%	1.71%	2.09%	-0.75 bps
30-Year Fixed Rate Agency Price:						
3.0%	\$97.54	\$99.55	\$100.84	\$101.51	\$101.42	+\$3.88
3.5%	\$99.95	\$101.35	\$102.24	\$102.58	\$102.86	+\$2.91
4.0%	\$101.94	\$102.86	\$103.36	\$103.77	\$104.01	+\$2.07
4.5%	\$103.53	\$104.20	\$104.49	\$105.29	\$105.29	+\$1.76
15-Year Fixed Rate Agency Price:						
2.5%	\$97.70	\$99.39	\$100.67	\$100.85	\$100.91	+\$3.21
3.0%	\$99.80	\$100.89	\$101.95	\$102.21	\$102.50	+\$2.70
3.5%	\$101.23	\$102.28	\$103.20	\$103.42	\$103.69	+\$2.46
4.0%	\$102.34	\$103.00	\$103.84	\$104.08	\$104.28	+\$1.94

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.

FINANCIAL CONDITION

As of December 31, 2019 and 2018, our investment portfolio consisted of \$100.4 billion and \$84.3 billion of investment securities, at fair value, respectively, and \$7.4 billion and \$7.3 billion of TBA securities, at fair value, respectively. The following table is a summary of our investment portfolio as of December 31, 2019 and 2018 (dollars in millions):

Investment Portfolio (Includes TBAs)	December 31, 2019				December 31, 2018			
	Amortized Cost	Fair Value	Average Coupon	%	Amortized Cost	Fair Value	Average Coupon	%
Fixed rate Agency RMBS and TBA securities:								
≤ 15-year:								
≤ 15-year RMBS	\$ 6,140	\$ 6,239	3.29%	6%	\$ 7,386	\$ 7,294	3.30%	8%
15-year TBA securities, net ¹	2,222	2,226	2.91%	2%	3,635	3,673	3.61%	4%
Total ≤ 15-year	8,362	8,465	3.19%	8%	11,021	10,967	3.40%	12%
20-year RMBS	752	773	3.87%	1%	778	774	3.95%	1%
30-year:								
30-year RMBS	89,483	91,062	3.67%	84%	74,883	73,685	3.87%	80%
30-year TBA securities, net ¹	5,182	5,203	2.92%	5%	3,617	3,649	4.47%	4%
Total 30-year	94,665	96,265	3.63%	89%	78,500	77,334	3.90%	84%
Total fixed rate Agency RMBS and TBA securities	103,779	105,503	3.60%	98%	90,299	89,075	3.84%	97%
Adjustable rate Agency RMBS	160	163	3.04%	—%	212	213	3.10%	—%
Multifamily	37	39	3.37%	—%	—	—	—%	—%
CMO Agency RMBS:								
CMO	441	447	3.44%	—%	588	583	3.46%	1%
Interest-only strips	63	77	4.22%	—%	77	84	3.61%	—%
Principal-only strips	83	87	—%	—%	95	94	—%	—%
Total CMO Agency RMBS	587	611	3.48%	1%	760	761	3.21%	1%
Total Agency RMBS and TBA securities	104,563	106,316	3.59%	99%	91,271	90,049	3.83%	98%
Non-Agency RMBS	198	209	4.05%	—%	264	266	3.83%	1%
CMBS	352	370	4.49%	1%	280	282	4.58%	—%
CRT	961	976	5.07%	1%	1,006	1,012	5.86%	1%
Total investment portfolio	\$ 106,074	\$ 107,871	3.61%	100%	\$ 92,821	\$ 91,609	3.85%	100%

- TBA securities are presented net of long and short positions. As of December 31, 2019, 30-year TBA securities consisted of \$6.8 billion long and \$(1.6) billion short TBA securities (at fair value) at an average coupon of 3.17% and 4.00%, respectively, and 15-year TBA securities consisted of entirely long TBA securities at an average coupon of 2.91%. As of December 31, 2018, 30-year TBA securities consisted of \$6.9 billion long and \$(3.3) billion short TBA securities at an average coupon of 4.03% and 3.56%, respectively, and 15-year TBA securities consisted entirely of long TBA securities at an average coupon of 3.61%. For further details of our TBA securities held as of each date refer to Note 5 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 December 31, 2019 and 2018, our TBA positions had a net carrying value of \$25 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 December 31, 2019 and 2018, the weighted average yield on our investment securities (excluding TBA securities) was 3.07% and 3.31%, respectively.

The following tables summarize certain characteristics of our fixed rate Agency RMBS portfolio, inclusive of TBAs, as of December 31, 2019 and 2018 (dollars in millions):

Fixed Rate Agency RMBS and TBA Securities	December 31, 2019								
	Includes Net TBA Position				Excludes Net TBA Position				
	Par Value	Amortized Cost	Fair Value	Specified Pool % ¹	Amortized Cost Basis	Weighted Average			Projected CPR ³
WAC ²						Yield ³	Age (Months)		
Fixed rate									
≤ 15-year									
2.5%	\$ 1,720	\$ 1,735	\$ 1,738	40%	101.0%	2.98%	2.11%	86	11%
3.0%	2,985	3,041	3,067	59%	101.7%	3.52%	2.45%	58	10%
3.5%	2,299	2,354	2,401	71%	102.2%	4.04%	2.86%	25	13%
4.0%	1,075	1,109	1,135	84%	103.1%	4.60%	3.05%	26	14%
4.5%	117	122	123	98%	103.5%	4.87%	3.00%	111	13%
≥ 5.0%	1	1	1	100%	101.9%	6.55%	4.55%	146	15%
Total ≤ 15-year	8,197	8,362	8,465	63%	102.0%	3.82%	2.65%	47	12%
20-year									
3.0%	54	56	56	97%	103.2%	3.78%	2.42%	5	8%
3.5%	284	289	297	81%	102.0%	4.05%	2.97%	77	12%
4.0%	196	202	209	92%	103.3%	4.45%	3.18%	34	13%
4.5%	194	204	210	100%	104.8%	5.00%	3.23%	37	15%
≥ 5.0%	1	1	1	—%	105.1%	5.95%	3.33%	141	18%
Total 20-year:	729	752	773	90%	103.2%	4.40%	3.05%	49	13%
30-year:									
3.0%	27,864	28,218	28,252	3%	101.4%	3.85%	2.73%	8	9%
3.5%	23,760	24,525	24,902	60%	103.3%	4.05%	2.97%	49	10%
4.0%	26,934	28,062	28,795	84%	104.2%	4.51%	3.25%	37	11%
4.5%	12,730	13,381	13,831	93%	105.1%	4.98%	3.45%	23	13%
5.0%	380	410	416	94%	108.0%	5.50%	3.28%	39	14%
≥ 5.5%	63	69	69	49%	109.6%	6.18%	3.33%	158	13%
Total 30-year	91,731	94,665	96,265	55%	103.3%	4.29%	3.07%	31	11%
Total fixed rate	\$ 100,657	\$ 103,779	\$ 105,503	56%	103.3%	4.26%	3.04%	32	11%

1. Specified pools include pools backed by lower balance loans with original loan balances of up to \$200K, HARP pools (defined as pools that were issued between May 2009 and December 2018 and backed by 100% refinance loans with original LTVs ≥ 80%), and pools backed by loans 100% originated in New York and Puerto Rico. As of December 31, 2019, lower balance specified pools had a weighted average original loan balance of \$115,000 and \$118,000 for 15-year and 30-year securities, respectively, and HARP pools had 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, 2019.

December 31, 2018

Fixed Rate Agency RMBS and TBA Securities	Includes Net TBA Position				Excludes Net TBA Position				
	Par Value	Amortized Cost	Fair Value	Specified Pool % ¹	Amortized Cost Basis	Weighted Average			Projected CPR ³
						WAC ²	Yield ³	Age (Months)	
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 had a weighted average original loan balance of \$102,000 and \$113,000 for 15-year and 30-year securities, respectively, and HARP pools had 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 December 31, 2019 and 2018, our investments in CRT and non-Agency securities had the following credit ratings:

CRT and Non-Agency Security Credit Ratings ¹	December 31, 2019			December 31, 2018		
	CRT ²	RMBS	CMBS	CRT ²	RMBS	CMBS
AAA	\$ —	\$ —	\$ 43	\$ —	\$ 160	\$ 52
AA	—	81	214	—	17	152
A	13	25	34	17	33	15
BBB	67	71	69	25	43	53
BB	471	21	10	492	8	10
B	308	4	—	453	2	—
Not Rated	117	7	—	25	3	—
Total	\$ 976	\$ 209	\$ 370	\$ 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.
2. CRT securities reference the performance of loans underlying Agency RMBS issued by Fannie Mae or Freddie Mac, each of which were subject to Fannie Mae and Freddie Mac's underwriting standards.

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

Our critical accounting estimates involve estimates that require management to make judgments that are subjective in nature. We rely on our experience and analysis of historical and current market data to arrive at what we believe to be reasonable estimates. Under different conditions, we could report materially different amounts based on such estimates. For additional information regarding our significant accounting policies please refer to Note 2 to the Consolidated Financial Statements included under Item 8 of this Annual Report on Form 10-K.

Interest Income

The effective yield on our Agency RMBS and non-Agency securities of high credit quality is highly impacted by our estimate of future prepayments. We accrue interest income based on the outstanding principal amount and their contractual terms and we amortize or accrete premiums and discounts associated with our purchase of these securities into interest income over their projected lives, taking into account scheduled contractual payments and estimated prepayments, using the interest method. The weighted average cost basis of our securities as of December 31, 2019 was 103.3% of par value; therefore, faster actual or projected prepayments could significantly reduce the yield on our assets.

Future prepayment rates are difficult to predict, and we rely on a third-party service provider and our experience and analysis of historical and current market data to arrive at what we believe to be reasonable estimates. Our third-party service provider estimates prepayment speeds using models that incorporate the forward yield curve, current mortgage rates, mortgage rates on 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 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 and, based on our judgment, we may adjust the 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 previous estimate of future prepayments and (ii) actual prepayments to date and current estimates of 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.

The most significant factor impacting prepayment rates on our securities is changes to long-term interest rates. Prepayment rates generally increase when interest rates fall and decrease when interest rates rise. However, there are a variety of other factors that may impact the rate of prepayments on our securities. Consequently, under different conditions, we could report materially different amounts. Item 7A. *Quantitative and Qualitative Disclosures About Market Risk* in this Form 10-K includes the estimated change in the weighted average projected CPR of our investments and in the corresponding weighted average yield on our investments should interest rates instantaneously go up or down by 50 and 100 basis points.

At the time we purchase non-Agency securities that are not of high credit quality, we determine an effective interest rate based on our estimate of the timing and amount of cash flows and our cost basis. On at least a quarterly basis, we review the estimated cash flows and make appropriate adjustments, based on input and analysis received from external sources, internal models, and our judgment about interest rates, prepayment rates, timing and amount of estimated credit losses, and other factors. Any resulting changes in effective yield are recognized prospectively based on the current amortized cost of the investment as adjusted for credit impairment, if any.

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 termination fee income recognized in connection with MTGE's termination of its management agreement due to the sale of MTGE to a third-party.

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.

Economic Interest Income and Asset Yields

The following table summarizes our economic interest income (a non-GAAP measure) for fiscal years 2019, 2018 and 2017, 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):

	Fiscal Year 2019		Fiscal Year 2018		Fiscal Year 2017	
	Amount	Yield	Amount	Yield	Amount	Yield
Interest income:						
Cash/coupon interest income	\$ 3,443	3.84 %	\$ 2,280	3.76 %	\$ 1,671	3.70 %
Net premium amortization	(601)	(0.76)%	(331)	(0.68)%	(378)	(0.97)%
Interest income (GAAP measure)	2,842	3.08 %	1,949	3.08 %	1,293	2.73 %
Estimated "catch-up" premium amortization cost (benefit) due to change in CPR forecast	104	0.11 %	(23)	(0.04)%	37	0.08 %
Interest income, excluding "catch-up" premium amortization	2,946	3.19 %	1,926	3.04 %	1,330	2.81 %
TBA dollar roll income - implied interest income ^{1,2}	306	3.30 %	500	3.40 %	493	2.92 %
Economic interest income, excluding "catch-up" amortization (non-GAAP measure) ³	\$ 3,252	3.20 %	\$ 2,426	3.11 %	\$ 1,823	2.84 %
Weighted average actual portfolio CPR for investment securities held during the period	11.4%		8.7%		10.9%	
Weighted average projected CPR for the remaining life of investment securities held as of period end	10.8%		7.9%		8.4%	
Average 30-year fixed rate mortgage rate as of period end ⁴	3.74%		4.55%		3.99%	
10-year U.S. Treasury rate as of period end	1.92%		2.68%		2.41%	

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 the TBA 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 fiscal years 2019 and 2018 compared to the corresponding prior year period (in millions):

Impact of Changes in the Principal Elements Impacting Economic Interest Income

Fiscal Year 2019 vs. 2018	Total Increase / (Decrease)	Due to Change in Average	
		Portfolio Size	Asset Yield
Interest Income (GAAP measure)	\$ 893	\$ 888	\$ 5
Estimated "catch-up" premium amortization due to change in CPR forecast	127	—	127
Interest income, excluding "catch-up" premium amortization	1,020	888	132
TBA dollar roll income - implied interest income	(194)	(185)	(9)
Economic interest income, excluding "catch-up" amortization (non-GAAP measure)	<u>\$ 826</u>	<u>\$ 703</u>	<u>\$ 123</u>

Fiscal Year 2018 vs. 2017	Total Increase / (Decrease)	Due to Change in Average	
		Portfolio Size	Asset Yield
Interest Income (GAAP measure)	\$ 656	\$ 438	\$ 218
Estimated "catch-up" premium amortization due to change in CPR forecast	(60)	—	(60)
Interest income, excluding "catch-up" premium amortization	596	438	158
TBA dollar roll income - implied interest income	7	(63)	70
Economic interest income, excluding "catch-up" amortization (non-GAAP measure)	<u>\$ 603</u>	<u>\$ 375</u>	<u>\$ 228</u>

Our average investment portfolio, inclusive of TBAs, increased 30% and 22% (at cost) for fiscal years 2019 and 2018, respectively, compared to the corresponding prior year period, largely as a function of deploying net proceeds from equity capital raises into incremental assets and increases to our tangible net book value "at risk" leverage ratio. The annual increases in our average asset yield, excluding "catch-up" amortization and including TBAs, over the corresponding prior year period was largely due to changes in asset composition. During each of 2019 and 2018, we increased our holdings of 30-year fixed rate securities relative to lower coupon, 15-year fixed rate securities. During 2019, the increase in our average portfolio coupon was partly offset by an increase in premium amortization expense associated with lower long-term interest rates and correspondingly faster CPR projections; whereas, during 2018, asset yields benefited from higher rates and correspondingly lower CPR projections, compared to the prior year period.

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 assets.

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-term investments 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 tangible net book value "at risk" leverage ratio was 9.4x, 9.0x and 8.1x as of December 31, 2019, 2018 and 2017, respectively. The table below presents a summary of our leverage ratios for the periods listed (dollars in millions):

Quarter Ended	Repurchase Agreements and Other Debt ¹			Net TBA Position Long/(Short) ²		Average Tangible Net Book Value "At Risk" Leverage during the Period ³	Tangible Net Book Value "At Risk" Leverage as of Period End ⁴
	Average Daily Amount	Maximum Daily Amount	Ending Amount	Average Daily Amount	Ending Amount		
December 31, 2019	\$ 88,677	\$ 92,672	\$ 89,313	\$ 7,038	\$ 7,404	9.5:1	9.4:1
September 30, 2019	\$ 87,938	\$ 92,420	\$ 90,462	\$ 10,146	\$ 1,820	10.0:1	9.8:1
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
December 31, 2017	\$ 48,122	\$ 51,322	\$ 50,653	\$ 18,355	\$ 15,739	8.1:1	8.1:1
September 30, 2017	\$ 41,406	\$ 47,442	\$ 45,885	\$ 18,616	\$ 19,433	7.9:1	8.0:1
June 30, 2017	\$ 38,945	\$ 40,112	\$ 39,463	\$ 16,931	\$ 17,283	8.0:1	8.1:1
March 31, 2017	\$ 39,203	\$ 41,221	\$ 39,809	\$ 13,460	\$ 14,377	7.8:1	8.0:1

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.
3. Average tangible net book value "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 and other intangible assets.
4. 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 and other intangible assets 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 fiscal years 2019, 2018 and 2017 (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:

Economic Interest Expense and Aggregate Cost of Funds ¹	Fiscal Year 2019		Fiscal Year 2018		Fiscal Year 2017	
	Amount	Cost of Funds	Amount	Cost of Funds	Amount	Cost of Funds
Repurchase agreement and other debt - interest expense (GAAP measure)	\$ 2,149	2.46 %	\$ 1,173	2.11 %	\$ 524	1.25%
TBA dollar roll income - implied interest expense ^{2,3}	212	2.26 %	273	1.85 %	164	0.97%
Economic interest expense - before interest rate swap periodic (income) costs, net ⁴	2,361	2.44 %	1,446	2.06 %	688	1.17%
Interest rate swap periodic interest (income) cost, net ^{2,5}	(402)	(0.42)%	(151)	(0.22)%	127	0.22%
Total economic interest expense (non-GAAP measure)	\$ 1,959	2.02 %	\$ 1,295	1.84 %	\$ 815	1.39%

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 fiscal years 2019 and 2018 compared to the corresponding prior year period (in millions):

Impact of Changes in the Principal Elements of Economic Interest Expense

Fiscal Year 2019 vs. 2018	Total Increase / (Decrease)	Due to Change in Average	
		Borrowing / Swap Balance	Borrowing / Swap Rate
Repurchase agreements and other debt interest expense	\$ 976	\$ 641	\$ 335
TBA dollar roll income - implied interest expense	(61)	(101)	40
Interest rate swap periodic interest income/cost	(251)	(73)	(178)
Total change in economic interest expense	\$ 664	\$ 467	\$ 197

Fiscal Year 2018 vs. 2017	Total Increase / (Decrease)	Due to Change in Average	
		Borrowing / Swap Balance	Borrowing / Swap Rate
Repurchase agreements and other debt interest expense	\$ 649	\$ 171	\$ 478
TBA dollar roll income - implied interest expense	109	(21)	130
Interest rate swap periodic interest income/cost	(278)	20	(298)
Total change in economic interest expense	\$ 480	\$ 170	\$ 310

Our average mortgage borrowings, inclusive of TBAs, increased by 36% and 20% for fiscal years 2019 and 2018, respectively, compared to the corresponding prior year period as a function of our higher asset base. The annual increases in the average interest rate (actual and implied) on our mortgage borrowings was largely due to increases in the federal funds rate during fiscal years 2018 and 2017. The annual increases in our interest rate swap periodic interest income was due the combination of increases in our average swap position and increases in the net rate received on our interest rate swaps. The following table presents a summary of the ratio of our average interest rates swaps outstanding, excluding forward starting swaps, to our average mortgage borrowings and the weighted average pay-fixed / receive-floating rates on our interest rate swaps for fiscal years 2019, 2018 and 2017 (dollars in millions):

Average Ratio of Interest Rate Swaps (Excluding Forward Starting Swaps) to Mortgage Borrowings Outstanding	Fiscal Year		
	2019	2018	2017
Average Agency repo and other debt outstanding	\$ 86,231	\$ 55,592	\$ 41,942
Average net TBA portfolio outstanding - at cost	\$ 9,262	\$ 14,697	\$ 16,859
Average mortgage borrowings outstanding	\$ 95,493	\$ 70,289	\$ 58,801
Average notional amount of interest rate swaps outstanding (excluding forward starting swaps)	\$ 63,890	\$ 43,137	\$ 37,331
Ratio of average interest rate swaps to mortgage borrowings outstanding	67 %	61 %	63 %
Average interest rate swap pay-fixed rate (excluding forward starting swaps)	1.61 %	1.83 %	1.55 %
Average interest rate swap receive-floating rate	(2.24)%	(2.18)%	(1.21)%
Average interest rate swap net pay/(receive) rate	(0.63)%	(0.35)%	0.34 %

For fiscal years 2019, 2018 and 2017, we had an average forward starting swap balance of \$3.0 billion, \$4.5 billion and \$2.4 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 fiscal years 2019, 2018 and 2017 was 70%, 68% and 68%, respectively.

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 fiscal years 2019, 2018 and 2017:

Investment and TBA Securities - Net Interest Spread	Fiscal Year		
	2019	2018	2017
Average asset yield, excluding "catch-up" premium amortization	3.20 %	3.11 %	2.84 %
Average aggregate cost of funds	(2.02)%	(1.84)%	(1.39)%
Average net interest spread, excluding "catch-up" premium amortization	1.18 %	1.27 %	1.45 %

Management Fee Income

Management fee income for fiscal years 2018 and 2017 consisted of \$54 million and \$38 million, respectively, of fees received from MTGE Investment Corp for asset management services. Fees for fiscal year 2018 included \$42 million of termination fee income from MTGE due to MTGE's termination of its management agreement as a result of its sale to a third party.

Operating Expenses

Operating expenses, for fiscal year 2019, were \$83 million, compared to \$100 million for fiscal year 2018. The year-over-year decline in operating expenses was due to one-time expenses recognized during 2018 associated with the termination of MTGE's management, including the write-off of our intangible asset associated with the management agreement of \$23 million and \$4 million of other expenses. Excluding these one-time items, our operating expenses increased by \$10 million for fiscal year 2019, due to the combination of higher compensation costs and other general expenses. Operating expenses for fiscal year 2018, excluding one-time items, were largely unchanged from fiscal year 2017.

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 fiscal years 2019, 2018 and 2017 (dollars in millions):

	Fiscal Year		
	2019	2018	2017
Net interest income (GAAP measure)	\$ 693	\$ 776	\$ 769
TBA dollar roll income, net ¹	94	227	329
Interest rate swap periodic interest income (cost), net ¹	402	151	(127)
Other interest and dividend income ¹	14	3	1
Adjusted net interest and dollar roll income	1,203	1,157	972
Other operating income (expense):			
Operating expenses	(83)	(100)	(73)
Less non-recurring write-off of intangible asset and other expenses associated with termination of management agreement	—	27	—
Management fee income	—	54	16
Less management agreement termination fee income	—	(42)	—
Adjusted other operating income (expense), net	(83)	(61)	(57)
Net spread and dollar roll income	1,120	1,096	915
Dividend on preferred stock	54	36	32
Net spread and dollar roll income available to common stockholders (non-GAAP measure)	1,066	1,060	883
Estimated "catch-up" premium amortization cost (benefit) due to change in CPR forecast	104	(23)	37
Net spread and dollar roll income, excluding "catch-up" premium amortization, available to common stockholders (non-GAAP measure)	\$ 1,170	\$ 1,037	\$ 920
Weighted average number of common shares outstanding - basic	540.6	441.1	358.6
Weighted average number of common shares outstanding - diluted	541.4	441.4	358.7
Net spread and dollar roll income per common share - basic	\$ 1.97	\$ 2.40	\$ 2.46
Net spread and dollar roll income per common share - diluted	\$ 1.97	\$ 2.40	\$ 2.46
Net spread and dollar roll income, excluding "catch-up" premium amortization, per common share - basic	\$ 2.16	\$ 2.35	\$ 2.57
Net spread and dollar roll income, excluding "catch-up" premium amortization, per common share - diluted	\$ 2.16	\$ 2.35	\$ 2.56

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

For the fiscal year 2019, we had net gains on our investment securities of \$3.4 billion resulting from the decline in long-term interest rates and an increase in the premium, or pay-up values, for our specified Agency RMBS holdings, given their lower likelihood of prepayment in low interest rate environments compared to generic Agency securities. Conversely, during fiscal years 2018 and 2017, we incurred net losses of \$1.0 billion and \$0.1 billion, respectively, on our investment securities largely as a function of higher interest rates and declining pay-up values. The following table is a summary of our net gain (loss) on investment securities for fiscal years 2019, 2018 and 2017 (in millions):

Gain (Loss) on Investment Securities, Net ¹	Fiscal Year		
	2019	2018	2017
Gain (loss) on sale of investment securities, net	\$ 388	\$ (137)	\$ (63)
Unrealized gain (loss) on investment securities measured at fair value through net income, net ²	2,014	(297)	(71)
Unrealized gain (loss) on investment securities measured at fair value through other comprehensive income, net	1,040	(598)	52
Total gain (loss) on investment securities, net	<u>\$ 3,442</u>	<u>\$ (1,032)</u>	<u>\$ (82)</u>

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 2 of our Consolidated Financial Statements in this Form 10-K).

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 fiscal years 2019, 2018 and 2017 (in millions):

	Fiscal Year		
	2019	2018	2017
Interest rate swap periodic interest income (cost), net	\$ 402	\$ 151	\$ (127)
Realized gain (loss) on derivative instruments and other securities, net:			
TBA securities - dollar roll income, net	94	227	329
TBA securities - mark-to-market net gain (loss)	362	(592)	(150)
Payer swaptions	(37)	67	(13)
U.S. Treasury securities - long position	11	1	1
U.S. Treasury securities - short position	(885)	125	(68)
U.S. Treasury futures - short position	(166)	112	(9)
Interest rate swaps - termination fees and variation margin settlements, net	(1,932)	(44)	378
Other	3	7	4
Total realized gain (loss) on derivative instruments and other securities, net	<u>(2,550)</u>	<u>(97)</u>	<u>472</u>
Unrealized gain (loss) on derivative instruments and other securities, net:			
TBA securities - mark-to-market net gain (loss)	(45)	66	151
Interest rate swaps	(115)	33	(184)
Payer swaptions	11	23	(53)
U.S. Treasury securities - long position	—	—	—
U.S. Treasury securities - short position	(82)	(286)	(73)
U.S. Treasury futures - short position	57	(64)	9
Other	(2)	7	(2)
Total unrealized gain (loss) on derivative instruments and other securities, net	<u>(176)</u>	<u>(221)</u>	<u>(152)</u>
Total gain (loss) on derivative instruments and other securities, net	<u>\$ (2,324)</u>	<u>\$ (167)</u>	<u>\$ 193</u>

For further details regarding our use of derivative instruments and related activity refer to Notes 2 and 5 of our Consolidated Financial Statements in this Form 10-K.

Estimated Taxable Income

For the fiscal years 2019, 2018 and 2017, we had estimated taxable income available to common stockholders of \$620 million, \$490 million and \$191 million (or \$1.15, \$1.11 and \$0.53 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 investment securities and derivative instruments marked-to-market in current income for GAAP purposes, but excluded from taxable income until realized, settled or amortized over the instrument's original term, (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 fiscal years 2019, 2018 and 2017 (dollars in millions, except per share amounts):

	Fiscal Year		
	2019	2018	2017
Net income (loss)	\$ 688	\$ 129	\$ 771
Estimated book to tax differences:			
Premium amortization, net	91	(51)	(9)
Realized gain/loss, net	1,530	(236)	(654)
Net capital loss/(utilization of net capital loss carryforward)	212	182	(95)
Unrealized (gain)/loss, net	(1,838)	518	223
Other	(9)	(16)	(13)
Total book to tax differences	(14)	397	(548)
Estimated REIT taxable income	674	526	223
Dividends on preferred stock	54	36	32
Estimated REIT taxable income available to common stockholders	\$ 620	\$ 490	\$ 191
Weighted average number of common shares outstanding - basic	540.6	441.1	358.6
Weighted average number of common shares outstanding - diluted	541.4	441.4	358.7
Estimated REIT taxable income per common share - basic	\$ 1.15	\$ 1.11	\$ 0.53
Estimated REIT taxable income per common share - diluted	\$ 1.15	\$ 1.11	\$ 0.53
Beginning cumulative non-deductible net capital loss	\$ 182	\$ 357	\$ 452
Increase (decrease) in net capital loss carryforward	212	(175)	(95)
Ending cumulative non-deductible net capital loss	\$ 394	\$ 182	\$ 357
Ending cumulative non-deductible net capital loss per common share	\$ 0.73	\$ 0.34	\$ 0.91

As of December 31, 2019, 2018 and 2017, we had distributed all our estimated taxable income for fiscal years 2019, 2018 and 2017, respectively. Accordingly, we do not expect to incur an income tax or excise tax liability on our 2019 taxable income, nor did we incur such liabilities on our 2018 and 2017 taxable income. Please refer to Item 5 of this Form 10-K and Note 9 to our Consolidated Financial Statements included in this Form 10-K for a summary of dividends declared on our common and preferred stock during fiscal years 2019, 2018 and 2017.

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

Mortgage Borrowings	December 31, 2019		December 31, 2018	
	Amount	%	Amount	%
Repurchase agreements ¹	\$ 89,085	92%	\$ 75,717	91%
Debt of consolidated variable interest entities, at fair value	228	—%	275	—%
Total debt	89,313	92%	75,992	91%
Net TBA position, at cost	7,404	8%	7,252	9%
Total mortgage borrowings	\$ 96,717	100%	\$ 83,244	100%

1. Amount excludes \$97 million of repurchase agreements used to fund purchases of U.S. Treasury securities as of December 31, 2019.

Our tangible net book value "at risk" leverage was 9.4x and 9.0x as of December 31, 2019 and 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 may have floating rates of interest based on a short-term benchmark rate plus or minus a fixed spread.

As of December 31, 2019, we had \$89.1 billion of repurchase agreements outstanding used to fund acquisitions of investment securities with a weighted average interest rate of 2.17% and a weighted average remaining days-to-maturity of 55 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 December 31, 2019, we had master repurchase agreements with 46 financial institutions located throughout North America, Europe and Asia, including counterparties accessed through our wholly-owned captive broker-dealer subsidiary, 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 December 31, 2019, \$35.5 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 December 31, 2019. For further details regarding our borrowings under repurchase agreements as of December 31, 2019, please refer to Notes 4 and 6 to our Consolidated Financial Statements in this Form 10-K.

December 31, 2019		
Counter-Party Region	Number of Counter-Parties	Percent of Repurchase Agreement Funding
North America:		
FICC	1	38%
Other	26	44%
Total North America	27	82%
Europe	14	14%
Asia	5	4%
Total	46	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 fiscal year 2019, haircuts on our pledged collateral remained stable and, as of December 31, 2019, our weighted average haircut was approximately 4.4% of the value of our collateral, inclusive of collateral funded through BES. As of December 31, 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 December 31, 2019, approximately 10% 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 December 31, 2019, we had met all of our margin requirements and we had unrestricted cash and cash equivalents of \$0.8 billion and unpledged securities of approximately \$4.8 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 2 and 5 to our Consolidated Financial Statements in this Form 10-K for further details regarding our use of derivative instruments.

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 December 31, 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 2 and 5 to our Consolidated Financial Statements in this Form 10-K additional details on 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 December 31, 2019, we had a net long TBA position with a total market value of \$7.4 billion and a net carrying value of \$25 million recognized in derivative assets/(liabilities), at fair value, on our Consolidated Balance Sheets in this Form 10-K.

Our TBA dollar roll contracts are also subject to margin requirements governed by the 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 December 31, 2019, the minimum net capital required was \$0.3 million and BES had excess net capital of \$621.7 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 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 December 31, 2019, approximately 95% 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.

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 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 December 31, 2019, we had not guaranteed obligations of unconsolidated entities or entered into a commitment or intent to provide funding to such entities.

AGGREGATE CONTRACTUAL OBLIGATIONS

The following table summarizes the effect on our liquidity and cash flows from contractual obligations for repurchase agreements and related interest expense (in millions):

	Fiscal Year					Total
	2020	2021	2022	2023	2024	
Repurchase agreements	\$ 86,857	\$ 625	\$ 1,700	\$ —	\$ —	\$ 89,182
Interest expense ¹	254	44	11	—	—	309
Total	<u>\$ 87,111</u>	<u>\$ 669</u>	<u>\$ 1,711</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 89,491</u>

1. Interest expense is calculated based on the weighted average interest rates on our repurchase agreements as of December 31, 2019.

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 Annual Report on Form 10-K 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 RMBS and other mortgage securities; or legislative or regulatory changes that affect our status as a REIT, our exemption from the Investment Company Act of 1940, or the mortgage markets 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 this document under Item 1A. *Risk Factors*. We caution readers not to place undue reliance on our forward-looking statements.

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk*

Market risk is the exposure to loss resulting from changes in market factors such as interest rates, foreign currency exchange rates, commodity prices 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 December 31, 2019 and 2018 should interest rates go up or down by 50 and 100 basis points, assuming instantaneous parallel shifts in the 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 December 31, 2019 and 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}				
Change in Interest Rate	December 31, 2019		December 31, 2018	
	Estimated Change in Portfolio Market Value	Estimated Change in Tangible Net Book Value Per Common Share	Estimated Change in Portfolio Market Value	Estimated Change in Tangible Net Book Value Per Common Share
-100 Basis Points	-0.5%	-6.0%	-0.7%	-7.3%
-50 Basis Points	-0.1%	-0.9%	-0.1%	-1.0%
+50 Basis Points	-0.4%	-4.7%	-0.3%	-3.1%
+100 Basis Points	-1.3%	-14.8%	-0.9%	-9.3%

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 December 31, 2019 and 2018, our investment securities (excluding TBAs) had a weighted average projected CPR of 10.8% and 7.9%, respectively, and a weighted average yield of 3.07% 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 instantaneously by 50 and 100 basis points. Estimated yields exclude the impact of retroactive "catch-up" premium amortization adjustments from prior periods due to changes in the projected CPR assumption.

Change in Interest Rate	Interest Rate Sensitivity ¹			
	December 31, 2019		December 31, 2018	
	Weighted Average Projected CPR	Weighted Average Asset Yield ²	Weighted Average Projected CPR	Weighted Average Asset Yield ²
-100 Basis Points	20.3%	2.73%	14.1%	3.15%
-50 Basis Points	15.0%	2.90%	10.3%	3.25%
Actual as of Period End	10.8%	3.07%	7.9%	3.31%
+50 Basis Points	8.1%	3.12%	6.5%	3.33%
+100 Basis Points	6.8%	3.16%	5.7%	3.38%

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. As a levered investor in mortgage-backed securities, spread risk is an inherent component of our investment strategy. Consequently, although we use hedging instruments to attempt to protect against moves in interest rates, our hedges are generally not designed to protect against spread risk, and our tangible net book value could decline if spreads widen.

Fluctuations in mortgage spreads 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. 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 December 31, 2019 and 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 5.0 and 5.6 years as of December 31, 2019 and 2018, respectively, based on interest rates and prices as of such dates; however, our portfolio's sensitivity to 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.

Change in MBS Spread	Spread Sensitivity ^{1,2}			
	December 31, 2019		December 31, 2018	
	Estimated Change in Portfolio Market Value	Estimated Change in Tangible Net Book Value Per Common Share	Estimated Change in Portfolio Market Value	Estimated Change in Tangible Net Book Value Per Common Share
-25 Basis Points	+1.2%	+14.0%	+1.4%	+14.3%
-10 Basis Points	+0.5%	+5.6%	+0.6%	+5.7%
+10 Basis Points	-0.5%	-5.6%	-0.6%	-5.7%
+25 Basis Points	-1.2%	-14.0%	-1.4%	-14.3%

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 December 31, 2019, we had unrestricted cash and cash equivalents of \$0.8 billion and unpledged securities of approximately \$4.8 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 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 careful 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 continuously 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 December 31, 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.

Item 8. *Financial Statements*

Our management is responsible for the accompanying consolidated financial statements and the related financial information. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States and necessarily include certain amounts that are based on estimates and informed judgments. Our management also prepared the related financial information included in this Annual Report on Form 10-K and is responsible for its accuracy and consistency with the consolidated financial statements.

The consolidated financial statements as of December 31, 2019 and 2018 and fiscal years 2019, 2018 and 2017 have been audited by Ernst & Young LLP, an independent registered public accounting firm, who conducted their audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). The independent registered public accounting firm's responsibility is to express an opinion on these consolidated financial statements based on their audit. For further information refer to the Ernst & Young LLP audit opinion included in this Item 8 of our Annual Report.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and Board of Directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the consolidated financial statements.

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

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2019, utilizing the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its Internal Control-Integrated Framework (2013 framework). Based on this assessment and those criteria, management determined that our internal control over financial reporting was effective as of December 31, 2019. The effectiveness of our internal control over financial reporting as of December 31, 2019 has been audited by Ernst & Young LLP, our independent registered public accounting firm, as stated in their attestation report included in this Form 10-K.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of AGNC Investment Corp.

Opinion on Internal Control over Financial Reporting

We have audited AGNC Investment Corp.'s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, AGNC Investment Corp. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of AGNC Investment Corp. as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes, and our report dated February 25, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

AGNC Investment Corp.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to AGNC Investment Corp. in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ Ernst & Young LLP

Tysons, Virginia
February 25, 2020

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of AGNC Investment Corp.

Opinion on Financial Statements

We have audited the accompanying consolidated balance sheets of AGNC Investment Corp. as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AGNC Investment Corp. at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), AGNC Investment Corp.'s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 25, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of AGNC Investment Corp.'s management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to AGNC Investment Corp. in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Agency securities and non-agency securities of high credit quality - net premium amortization

*Description
of the Matter*

As of December 31, 2019, the Company's investment securities had a net unamortized premium balance of \$3.0 billion, including interest and principal-only securities, and it recorded \$601.8 million of net premium amortization for the year then ended. As explained in Note 2 to the financial statements, premiums or discounts associated with the purchase of Agency residential mortgage-backed securities ("Agency RMBS") and non-Agency mortgage-backed securities 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. The effective yield on the Company's Agency RMBS and non-Agency mortgage-backed securities of high credit quality is highly impacted by the Company's estimate of future prepayments. The Company estimates long-term prepayment speeds of such securities using a third-party service and market data. The third-party service provider estimates long-term 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.

Auditing the Company's estimation of long-term prepayment speeds used for the amortization of premiums and accretion of discounts is subjective due to the significant judgments and estimates required by management and the third-party service provider, as inputs into prepayment models are prone to fluctuation based on changing macroeconomic conditions.

*How We Addressed the
Matter in Our Audit*

We obtained an understanding, evaluated the design and tested the operating effectiveness of internal controls over the estimation of long-term prepayment speeds, including management's review of the estimated prepayment speeds provided by the third-party service provider.

Our audit procedures included, among others, performing comparative analyses between the Company's long-term prepayment speed estimates and long-term prepayment speed estimates data from independent third-party sources, reconciling the Company's estimates of long-term prepayment speeds to source prepayment speeds data provided by management's third-party service provider, evaluating the competency and objectivity of management's third-party service provider, and identifying potential sources of contrary information, with the assistance of an internal valuation specialist.

/s/ Ernst & Young LLP

We have served as AGNC Investment Corp.'s auditor since 2008.

Tysons, Virginia
February 25, 2020

AGNC INVESTMENT CORP.
CONSOLIDATED BALANCE SHEETS
(in millions, except per share data)

	December 31,	
	2019	2018
Assets:		
Agency securities, at fair value (including pledged securities of \$92,608 and \$78,619, respectively)	\$ 98,516	\$ 82,291
Agency securities transferred to consolidated variable interest entities, at fair value (pledged securities)	371	436
Credit risk transfer securities, at fair value (including pledged securities of \$309 and \$141, respectively)	976	1,012
Non-Agency securities, at fair value (including pledged securities of \$0 and \$45, respectively)	579	548
U.S. Treasury securities, at fair value (including pledged securities of \$97 and \$0, respectively)	97	46
Cash and cash equivalents	831	921
Restricted cash	451	599
Derivative assets, at fair value	190	273
Receivable for investment securities sold (pledged securities)	—	489
Receivable under reverse repurchase agreements	10,181	21,813
Goodwill	526	526
Other assets	364	287
Total assets	<u>\$ 113,082</u>	<u>\$ 109,241</u>
Liabilities:		
Repurchase agreements	\$ 89,182	\$ 75,717
Debt of consolidated variable interest entities, at fair value	228	275
Payable for investment securities purchased	2,554	1,204
Derivative liabilities, at fair value	6	84
Dividends payable	104	106
Obligation to return securities borrowed under reverse repurchase agreements, at fair value	9,543	21,431
Accounts payable and other liabilities	424	518
Total liabilities	<u>102,041</u>	<u>99,335</u>
Stockholders' equity:		
Preferred Stock - aggregate liquidation preference of \$963 and \$500, respectively	932	484
Common stock - \$0.01 par value; 900 shares authorized; 540.9 and 536.3 shares issued and outstanding, respectively	5	5
Additional paid-in capital	13,893	13,793
Retained deficit	(3,886)	(3,433)
Accumulated other comprehensive income (loss)	97	(943)
Total stockholders' equity	<u>11,041</u>	<u>9,906</u>
Total liabilities and stockholders' equity	<u>\$ 113,082</u>	<u>\$ 109,241</u>

See accompanying notes to consolidated financial statements.

AGNC INVESTMENT CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions, except per share data)

	For the year ended December 31,		
	2019	2018	2017
Interest income:			
Interest income	\$ 2,842	\$ 1,949	\$ 1,293
Interest expense	2,149	1,173	524
Net interest income	693	776	769
Other gain (loss), net:			
Gain (loss) on sale of investment securities, net	388	(137)	(63)
Unrealized gain (loss) on investment securities measured at fair value through net income, net	2,014	(297)	(71)
Gain (loss) on derivative instruments and other securities, net	(2,324)	(167)	193
Management fee income	—	54	16
Total other gain (loss), net:	78	(547)	75
Expenses:			
Compensation and benefits	47	45	42
Other operating expense	36	55	31
Total operating expense	83	100	73
Net income	688	129	771
Dividends on preferred stock	54	36	32
Issuance costs of redeemed preferred stock	6	—	6
Net income available to common stockholders	\$ 628	\$ 93	\$ 733
Net income	\$ 688	\$ 129	\$ 771
Unrealized gain (loss) on investment securities measured at fair value through other comprehensive income (loss), net	1,040	(598)	52
Comprehensive income (loss)	1,728	(469)	823
Dividends on preferred stock	54	36	32
Issuance cost of redeemed preferred stock	6	—	6
Comprehensive income (loss) available (attributable) to common stockholders	\$ 1,668	\$ (505)	\$ 785
Weighted average number of common shares outstanding - basic	540.6	441.1	358.6
Weighted average number of common shares outstanding - diluted	541.4	441.4	358.7
Net income per common share - basic	\$ 1.16	\$ 0.21	\$ 2.04
Net income per common share - diluted	\$ 1.16	\$ 0.21	\$ 2.04

See accompanying notes to consolidated financial statements.

AGNC INVESTMENT CORP.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in millions)

	Preferred Stock	Common Stock		Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total
		Shares	Amount				
Balance, December 31, 2016	\$ 336	331.0	\$ 3	\$ 9,932	\$ (2,518)	\$ (397)	\$ 7,356
Net income	—	—	—	—	771	—	771
Other comprehensive income:							
Unrealized gain on available-for-sale securities, net	—	—	—	—	—	52	52
Stock-based compensation	—	—	—	4	—	—	4
Issuance of preferred stock, net of offering cost	315	—	—	—	—	—	315
Redemption of preferred stock	(167)	—	—	—	(6)	—	(173)
Issuance of common stock, net of offering cost	—	60.3	1	1,237	—	—	1,238
Preferred dividends declared	—	—	—	—	(32)	—	(32)
Common dividends declared	—	—	—	—	(777)	—	(777)
Balance, December 31, 2017	\$ 484	391.3	\$ 4	\$ 11,173	\$ (2,562)	\$ (345)	\$ 8,754
Net income	—	—	—	—	129	—	129
Other comprehensive loss:							
Unrealized loss on available-for-sale securities, net	—	—	—	—	—	(598)	(598)
Stock-based compensation	—	—	—	10	—	—	10
Issuance of common stock, net of offering cost	—	145.0	1	2,610	—	—	2,611
Preferred dividends declared	—	—	—	—	(36)	—	(36)
Common dividends declared	—	—	—	—	(964)	—	(964)
Balance, December 31, 2018	\$ 484	536.3	\$ 5	\$ 13,793	\$ (3,433)	\$ (943)	\$ 9,906
Net income	—	—	—	—	688	—	688
Other comprehensive income:							
Unrealized gain on available-for-sale securities, net	—	—	—	—	—	1,040	1,040
Stock-based compensation	—	0.1	—	13	—	—	13
Issuance of preferred stock, net of offering cost	617	—	—	—	—	—	617
Redemption of preferred stock	(169)	—	—	—	(6)	—	(175)
Issuance of common stock, net of offering cost	—	11.4	—	190	—	—	190
Repurchase of common stock	—	(6.9)	—	(103)	—	—	(103)
Preferred dividends declared	—	—	—	—	(54)	—	(54)
Common dividends declared	—	—	—	—	(1,081)	—	(1,081)
Balance, December 31, 2019	\$ 932	540.9	\$ 5	\$ 13,893	\$ (3,886)	\$ 97	\$ 11,041

See accompanying notes to consolidated financial statements.

AGNC INVESTMENT CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	For the year ended December 31,		
	2019	2018	2017
Operating activities:			
Net income	\$ 688	\$ 129	\$ 771
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of premiums and discounts on mortgage-backed securities, net	601	331	378
Amortization of intangible assets	—	25	3
Stock-based compensation	13	6	4
(Gain) loss on sale of investment securities, net	(388)	137	63
Unrealized (gain) loss on investment securities measured at fair value through net income, net	(2,014)	297	71
(Gain) loss on derivative instruments and other securities, net	2,324	167	(193)
(Increase) decrease in other assets	(35)	(100)	82
Increase (decrease) in accounts payable and other accrued liabilities	(9)	121	81
Net cash provided by operating activities	<u>1,180</u>	<u>1,113</u>	<u>1,260</u>
Investing activities:			
Purchases of Agency mortgage-backed securities	(47,548)	(42,586)	(35,920)
Purchases of credit risk transfer and non-Agency securities	(1,406)	(1,572)	(1,074)
Proceeds from sale of Agency mortgage-backed securities	23,212	8,132	18,701
Proceeds from sale of credit risk transfer and non-Agency securities	1,437	891	494
Principal collections on Agency mortgage-backed securities	12,810	7,170	6,869
Principal collections on credit risk transfer and non-Agency securities	20	15	5
Payments on U.S. Treasury securities	(26,823)	(10,829)	(11,756)
Proceeds from U.S. Treasury securities	13,555	21,308	14,557
Net proceeds from (payments on) reverse repurchase agreements	11,962	(10,571)	(3,162)
Net proceeds from (payments on) derivative instruments	(1,437)	76	253
Net proceeds from other investing activity	—	30	(28)
Net cash used in investing activities	<u>(14,218)</u>	<u>(27,936)</u>	<u>(11,061)</u>
Financing activities:			
Proceeds from repurchase arrangements	4,234,972	2,031,463	483,516
Payments on repurchase agreements	(4,221,507)	(2,006,042)	(471,078)
Payments on debt of consolidated variable interest entities	(55)	(78)	(104)
Payments on Federal Home Loan Bank advances	—	—	(3,037)
Net proceeds from preferred stock issuances	617	—	315
Payments for preferred stock redemptions	(175)	—	(173)
Net proceeds from common stock issuances	190	2,611	1,238
Payments for common stock repurchases	(103)	—	—
Cash dividends paid	(1,139)	(974)	(795)
Net cash provided by financing activities	<u>12,800</u>	<u>26,980</u>	<u>9,882</u>
Net change in cash, cash equivalents and restricted cash	(238)	157	81
Cash, cash equivalents and restricted cash at beginning of period	1,520	1,363	1,282
Cash, cash equivalents and restricted cash at end of period	<u>\$ 1,282</u>	<u>\$ 1,520</u>	<u>\$ 1,363</u>
Supplemental disclosure to cash flow information:			
Interest paid	<u>\$ 2,097</u>	<u>\$ 1,090</u>	<u>\$ 474</u>

See accompanying notes to consolidated financial statements.

AGNC INVESTMENT CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. 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 2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). Our consolidated financial statements include the accounts of all subsidiaries and variable interest entities for which we are the primary beneficiary. Significant intercompany accounts and transactions have been eliminated.

Use of Estimates

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, disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the period reported. Actual results could differ from those estimates.

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 synthetically 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.

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 our ability 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 began electing 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"), whereas 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). 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 7 for further discussion of fair value measurements.

We evaluate our investments designated as available-for-sale, on a quarterly basis, to assess whether a decline in the fair value of the security below its amortized cost basis is an other-than-temporary impairment ("OTTI"). 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: (i) 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. If either of the first two conditions exists as of the financial reporting date, the entire amount of the impairment loss, if any, is recognized in earnings as a realized loss and the cost basis of the security is adjusted to its fair value. If the third condition exists, the OTTI is separated into (i) the amount relating to credit loss (the "credit component") and (ii) the amount relating to all other factors (the "non-credit components"). Only the credit component is recognized in earnings, with the non-credit components recognized in OCI. We did not recognize OTTI charges on our investment securities for fiscal years 2019, 2018 or 2017.

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 previous estimate of future prepayments and (ii) actual prepayments to date and our current estimate of future prepayments. We are required to record an adjustment in the current period to premium amortization / discount accretion for the cumulative effect of the difference in the effective yields as if the recalculated yield had been in place as of the security's acquisition date through the reporting date.

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. We may also enter into reverse repurchase agreements to earn a yield on excess cash balances. The securities received as collateral in connection with our reverse repurchase agreements mitigate our credit risk exposure to counterparties. 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 swaps") based on a short-term benchmark rate, such as the three-month London Interbank Offered Rate ("LIBOR"), Overnight Index Swap Rate ("OIS") or Secured Overnight Financing Rate ("SOFR"). 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 short-term benchmark rates, 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.

Consolidated Variable Interest Entities

ASC Topic 810, *Consolidation* ("ASC 810"), requires an enterprise to consolidate a variable interest entity ("VIE") if it is deemed the primary beneficiary of the VIE. As of December 31, 2019 and 2018, our consolidated financial statements reflect the consolidation of certain 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.

We elected the option to account for the debt of consolidated VIEs at fair value, with changes in fair value reflected in earnings during the period in which they occur. We believe this election more appropriately reflects our financial position as both the consolidated assets and consolidated debt are presented in a consistent manner on our consolidated balance sheets. We estimate the fair value of the consolidated debt based on the fair value of the Agency RMBS held by the CMO trusts, less the fair value of our retained interests in the trusts, which are measured on a market approach using "Level 2" inputs from third-party pricing services and dealer quotes, because such inputs are more observable than inputs to otherwise independently determine the value of our consolidated debt.

Cash and Cash Equivalents

Cash and cash equivalents include cash held in bank accounts and cash held in money market funds on an overnight basis.

Restricted Cash

Restricted cash includes cash pledged as collateral for clearing and executing trades, repurchase agreements and other borrowings, and interest rate swaps and other derivative instruments.

Goodwill

Goodwill is the cost of an acquisition in excess of the fair value of identified assets acquired and liabilities assumed and is recognized as an asset on our consolidated balance sheets. As of December 31, 2019 and 2018, we had \$526 million of goodwill related to our acquisition of AGNC Management, LLC, our former manager, on July 1, 2016. Goodwill is not subject to amortization but must be tested for impairment at least annually and at interim periods when events or circumstances may make it more likely than not that an impairment has occurred. If a qualitative analysis indicates that there may be an impairment, a quantitative analysis is performed. The quantitative analysis requires that we compare the carrying value of the identified reporting unit comprising the goodwill to the reporting unit's fair value. If the reporting units' carrying value is greater than its fair value, an impairment charge is recognized to the extent the carrying amount of the reporting unit exceeds its fair value. During fiscal years 2019, 2018, and 2017, we did not recognize a goodwill impairment charge.

Stock-Based Compensation

Under our 2016 AGNC Investment Corp. Equity and Incentive Compensation Plan (the "2016 Equity Plan" or "the Plan"), we may grant equity-based compensation to our officers and other employees and non-employee directors for the purpose of providing incentives and rewards for service or performance. Stock-based awards issued under the Plan include time-based and performance-based restricted stock unit awards ("RSU" and "PSU" awards, respectively), but may include other forms of equity-based compensation. RSU and PSU awards are an agreement to issue an equivalent number of shares of our common stock, plus any equivalent shares for dividends declared on our common stock, at the time the award vests, or later if distribution of such shares has been deferred beyond the vesting date. RSU awards vest over a specified service period. PSU awards vest over a specified service period subject to achieving long-term performance criteria.

We measure and recognize compensation expense for all stock-based payment awards made to employees and non-employee directors based on their fair values. We value RSU and PSU awards based on the fair value of our common stock on the date of grant. Compensation expense is recognized over each award's respective service period. In the case of PSU awards, we estimate the probability that the performance criteria will be achieved and recognize expense only for those awards expected to vest. We reevaluate our estimates each reporting period and recognize a cumulative effect adjustment to expense if our estimates change from the prior period. We do not estimate forfeiture rates; rather, we adjust for forfeitures in the periods in which they occur.

Shares underlying RSU and PSU awards are issued on the vesting dates, or later if distribution of such shares has been deferred beyond the vesting date, net of shares withheld for minimum statutory tax withholdings to be paid by us on behalf of our employees. As a result, the actual number of shares issued will be fewer than the actual number of awards outstanding. When shares are withheld for statutory tax withholdings, we record a liability for tax withholding amounts to be paid by us as a reduction to additional paid-in capital.

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 certain other instruments. Under ASU 2016-13, credit losses on available-for-sale investment securities are recorded as an allowance rather than as a direct reduction of amortized cost. Remaining losses unrelated to credit loss, such as due to changing interest rates, continue 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. ASU 2016-13 is not expected to have a significant impact on our consolidated financial statements.

Note 3. Investment Securities

As of December 31, 2019 and 2018, our investment portfolio consisted of \$100.4 billion and \$84.3 billion of investment securities, at fair value, respectively, and \$7.4 billion and \$7.3 billion of net TBA securities, at fair value, respectively. Our net TBA position is reported at its net carrying value of \$25 million and \$70 million as of December 31, 2019 and 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 December 31, 2019 and 2018, our investment securities had a net unamortized premium balance of \$3.1 billion and \$2.9 billion, respectively.

The following tables summarize our investment securities as of December 31, 2019 and 2018, excluding TBA securities, (dollars in millions). Details of our TBA securities as of each of the respective dates are included in Note 5.

Investment Securities	December 31, 2019		December 31, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Agency RMBS:				
Fixed rate	\$ 96,375	\$ 98,074	\$ 83,047	\$ 81,753
Adjustable rate	160	163	212	213
CMO	441	447	588	583
Interest-only and principal-only strips	146	164	172	178
Multifamily	37	39	—	—
Total Agency RMBS	97,159	98,887	84,019	82,727
Non-Agency RMBS	198	209	264	266
CMBS	352	370	280	282
CRT securities	961	976	1,006	1,012
Total investment securities	\$ 98,670	\$ 100,442	\$ 85,569	\$ 84,287

Investment Securities	December 31, 2019						
	Agency RMBS			Non-Agency			Total
	Fannie Mae	Freddie Mac	Ginnie Mae	RMBS	CMBS	CRT	
Available-for-sale securities:							
Par value	\$ 14,301	\$ 4,762	\$ 18	\$ —	\$ —	\$ —	\$ 19,081
Unamortized discount	(10)	(2)	—	—	—	—	(12)
Unamortized premium	711	276	—	—	—	—	987
Amortized cost	15,002	5,036	18	—	—	—	20,056
Gross unrealized gains	142	29	1	—	—	—	172
Gross unrealized losses	(50)	(25)	—	—	—	—	(75)
Total available-for-sale securities, at fair value	15,094	5,040	19	—	—	—	20,153
Securities remeasured at fair value through earnings:							
Par value	45,106	29,881	—	208	348	937	76,480
Unamortized discount	(68)	(2)	—	(10)	(3)	(2)	(85)
Unamortized premium	1,218	967	—	1	7	26	2,219
Amortized cost	46,256	30,846	—	199	352	961	78,614
Gross unrealized gains	991	691	—	10	19	18	1,729
Gross unrealized losses	(32)	(18)	—	—	(1)	(3)	(54)
Total securities remeasured at fair value through earnings	47,215	31,519	—	209	370	976	80,289
Total securities, at fair value	\$ 62,309	\$ 36,559	\$ 19	\$ 209	\$ 370	\$ 976	\$ 100,442
Weighted average coupon as of December 31, 2019	3.62%	3.75%	3.77%	4.05%	4.49%	5.07%	3.68%
Weighted average yield as of December 31, 2019 ¹	3.03%	3.09%	2.08%	4.39%	4.38%	4.05%	3.07%

1. Incorporates a weighted average future constant prepayment rate assumption of 10.8% based on forward rates as of December 31, 2019.

Investment Securities	December 31, 2018						
	Agency RMBS			Non-Agency			Total
	Fannie Mae	Freddie Mac	Ginnie Mae	RMBS	CMBS	CRT	
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%

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

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

CRT and Non-Agency Security Credit Ratings ¹	December 31, 2019			December 31, 2018		
	CRT	RMBS	CMBS	CRT	RMBS	CMBS
AAA	\$ —	\$ —	\$ 43	\$ —	\$ 160	\$ 52
AA	—	81	214	—	17	152
A	13	25	34	17	33	15
BBB	67	71	69	25	43	53
BB	471	21	10	492	8	10
B	308	4	—	453	2	—
Not Rated	117	7	—	25	3	—
Total	\$ 976	\$ 209	\$ 370	\$ 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.

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 December 31, 2019 and 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 10.8% 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 December 31, 2019 and 2018 according to their estimated weighted average life classification (dollars in millions):

Estimated Weighted Average Life of Investment Securities	December 31, 2019				December 31, 2018			
	Fair Value	Amortized Cost	Weighted Average Coupon	Weighted Average Yield	Fair Value	Amortized Cost	Weighted Average Coupon	Weighted Average Yield
≤ 3 years	\$ 2,671	\$ 2,654	3.54%	2.61%	\$ 1,690	\$ 1,716	3.99%	2.64%
> 3 years and ≤ 5 years	10,822	10,563	3.85%	3.20%	5,518	5,586	3.35%	2.73%
> 5 years and ≤ 10 years	86,492	85,002	3.67%	3.07%	72,503	73,588	3.92%	3.37%
> 10 years	457	451	3.31%	3.06%	4,576	4,679	3.57%	3.30%
Total	\$ 100,442	\$ 98,670	3.68%	3.07%	\$ 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 December 31, 2019 and 2018 (in millions):

Securities Classified as Available-for-Sale	Unrealized Loss Position For					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2019	\$ 1,653	\$ (12)	\$ 6,984	\$ (63)	\$ 8,637	\$ (75)
December 31, 2018	\$ 4,783	\$ (72)	\$ 18,231	\$ (878)	\$ 23,014	\$ (950)

We did not recognize OTTI charges on our investment securities classified as available-for-sale 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.

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 fiscal years 2019, 2018 and 2017 by investment classification of accounting (in millions):

	Fiscal Year 2019			Fiscal Year 2018			Fiscal Year 2017		
	Available-for-Sale Securities ²	Fair Value Option Securities	Total	Available-for-Sale Securities ²	Fair Value Option Securities	Total	Available-for-Sale Securities ²	Fair Value Option Securities	Total
Investment Securities									
Investment securities sold, at cost	\$ (732)	\$ (23,040)	\$ (23,772)	\$ (4,306)	\$ (5,344)	\$ (9,650)	\$ (6,324)	\$ (12,913)	\$ (19,237)
Proceeds from investment securities sold ¹	723	23,437	24,160	4,227	5,286	9,513	6,241	12,933	19,174
Net gain (loss) on sale of investment securities	\$ (9)	\$ 397	\$ 388	\$ (79)	\$ (58)	\$ (137)	\$ (83)	\$ 20	\$ (63)
Gross gain on sale of investment securities	\$ —	\$ 401	\$ 401	\$ 6	\$ 16	\$ 22	\$ 16	\$ 48	\$ 64
Gross loss on sale of investment securities	(9)	(4)	(13)	(85)	(74)	(159)	(99)	(28)	(127)
Net gain (loss) on sale of investment securities	\$ (9)	\$ 397	\$ 388	\$ (79)	\$ (58)	\$ (137)	\$ (83)	\$ 20	\$ (63)

1. Proceeds include cash received during the period, plus receivable for investment securities sold during the period as of period end.
2. See Note 9 for a summary of changes in accumulated OCI.

Note 4. Repurchase Agreements and Reverse Repurchase Agreements

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 December 31, 2019, we had met all margin call requirements. For additional information regarding our pledged assets, please refer to Note 6.

As of December 31, 2019 and 2018, we had \$89.2 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 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 December 31, 2019 and 2018 (dollars in millions):

Remaining Maturity	December 31, 2019			December 31, 2018		
	Repurchase Agreements	Weighted Average Interest Rate	Weighted Average Days to Maturity	Repurchase Agreements	Weighted Average Interest Rate	Weighted Average Days to Maturity
Agency repo:						
≤ 1 month	\$ 56,664	2.19%	10	\$ 48,533	2.88%	9
> 1 to ≤ 3 months	20,761	2.01%	53	20,991	2.57%	56
> 3 to ≤ 6 months	5,683	2.19%	100	2,218	2.65%	167
> 6 to ≤ 9 months	1,500	2.66%	182	200	3.19%	208
> 9 to ≤ 12 months	2,152	2.41%	351	950	2.80%	279
> 12 to ≤ 24 months	625	2.38%	411	2,200	2.91%	438
> 24 to ≤ 36 months	1,700	2.45%	833	625	3.11%	776
Total Agency repo	89,085	2.17%	55	75,717	2.79%	49
U.S. Treasury repo:						
> 1 day to ≤ 1 month	97	1.63%	2	—	—%	—
Total	\$ 89,182	2.17%	55	\$ 75,717	2.79%	49

As of December 31, 2019 and 2018, \$17.0 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 December 31, 2019, we had \$4.5 billion of forward commitments to enter into repurchase agreements, with a weighted average forward start date of 12 days and a weighted average interest rate of 1.60%. As of 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 December 31, 2019 and 2018, 40% 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 38% and 33% of our repurchase agreement funding outstanding as of December 31, 2019 and 2018, respectively.

Reverse Repurchase Agreements

As of December 31, 2019 and 2018, we had \$10.2 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 \$9.5 billion and \$21.4 billion, respectively. As of December 31, 2019 and 2018, \$5.4 billion and \$4.5 billion, respectively, of our reverse repurchase agreements were with the FICC sourced through BES.

Note 5. 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 2.

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 December 31, 2019 and 2018 (in millions):

Derivative and Other Hedging Instruments	Balance Sheet Location	December 31,	
		2019	2018
Interest rate swaps	Derivative assets, at fair value	\$ 21	\$ 126
Swaptions	Derivative assets, at fair value	126	37
TBA securities	Derivative assets, at fair value	29	110
U.S. Treasury futures - short	Derivative assets, at fair value	14	—
Total derivative assets, at fair value		<u>\$ 190</u>	<u>\$ 273</u>
Interest rate swaps	Derivative liabilities, at fair value	\$ (2)	\$ —
TBA securities	Derivative liabilities, at fair value	(4)	(40)
U.S. Treasury futures - short	Derivative liabilities, at fair value	—	(44)
Total derivative liabilities, at fair value		<u>\$ (6)</u>	<u>\$ (84)</u>
U.S. Treasury securities - long	U.S. Treasury securities, at fair value	\$ 97	\$ 46
U.S. Treasury securities - short	Obligation to return securities borrowed under reverse repurchase agreements, at fair value	(9,543)	(21,431)
Total U.S. Treasury securities, net at fair value		<u>\$ (9,446)</u>	<u>\$ (21,385)</u>

The following tables summarize certain characteristics of our derivative and other hedging instruments outstanding as of December 31, 2019 and 2018 (dollars in millions):

Pay Fixed / Receive Variable Interest Rate Swaps	December 31, 2019				December 31, 2018			
	Notional Amount	Average Fixed Pay Rate	Average Receive Rate	Average Maturity (Years)	Notional Amount ¹	Average Fixed Pay Rate ²	Average Receive Rate	Average Maturity (Years)
≤ 3 years	\$ 59,700	1.30%	1.58%	1.6	\$ 19,900	1.63%	2.62%	1.3
> 3 to ≤ 5 years	9,850	1.17%	1.55%	3.8	8,425	2.06%	2.61%	4.0
> 5 to ≤ 7 years	5,650	1.34%	1.70%	6.4	7,875	2.66%	2.66%	6.1
> 7 to ≤ 10 years	2,850	1.36%	1.58%	8.9	10,550	2.36%	2.64%	8.8
> 10 years	1,025	1.64%	1.78%	15.4	4,875	2.77%	2.63%	11.6
Total	\$ 79,075	1.29%	1.59%	2.7	\$ 51,625	2.11%	2.63%	5.0

1. Notional amount as of December 31, 2018 includes forward starting swaps of \$5.7 billion with an average forward start date of 0.5 years. There were no forward starting swaps outstanding as of December 31, 2019.
2. 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 2018.

Pay Fixed / Receive Variable Interest Rate Swaps by Receive Index (% of Notional Amount)	December 31, 2019	December 31, 2018
OIS	86%	—%
3M LIBOR	11%	100%
SOFR	3%	—%
Total	100%	100%

Swaptions	Option			Underlying Payer Swap			
	Cost Basis	Fair Value	Average Months to Current Option Expiration Date ¹	Notional Amount	Average Fixed Pay Rate	Average Receive Rate (LIBOR)	Average Term (Years)
Current Option Expiration Date							
December 31, 2019							
≤ 1 year	\$ 123	\$ 80	8	\$ 5,650	2.26%	3M	9.3
> 1 year ≤ 2 years	53	46	16	3,200	2.50%	3M	10.0
Total	\$ 176	\$ 126	11	\$ 8,850	2.34%	3M	9.5
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

1. As of December 31, 2019 and 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	December 31, 2019			December 31, 2018		
	Face Amount Long/(Short)	Cost Basis ¹	Fair Value	Face Amount Long/(Short)	Cost Basis ¹	Fair Value
5 years	\$ 95	\$ 95	\$ 97	\$ (703)	\$ (706)	\$ (713)
7 years	—	—	—	(14,357)	(14,325)	(14,410)
10 years	(9,224)	(9,329)	(9,543)	(6,240)	(6,224)	(6,262)
Total U.S. Treasury securities	\$ (9,129)	\$ (9,234)	\$ (9,446)	\$ (21,300)	\$ (21,255)	\$ (21,385)

1. As of December 31, 2019 and 2018, short U.S. Treasury securities had a weighted average yield of 2.19% and 2.66%, respectively, and long U.S. Treasury securities had a weighted average yield of 2.21% and 2.98%, respectively.

U.S. Treasury Futures	December 31, 2019				December 31, 2018			
	Notional Amount Long (Short)	Cost Basis	Fair Value	Net Carrying Value ¹	Notional Amount Long (Short)	Cost Basis	Fair Value	Net Carrying Value ¹
Maturity								
10 years	\$ (1,000)	\$ (1,298)	\$ (1,284)	\$ 14	\$ (1,650)	\$ (1,969)	\$ (2,013)	\$ (44)

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.

TBA Securities by Coupon	December 31, 2019				December 31, 2018			
	Notional Amount Long (Short)	Cost Basis	Fair Value	Net Carrying Value ¹	Notional Amount Long (Short)	Cost Basis	Fair Value	Net Carrying Value ¹
15-Year TBA securities:								
2.5%	\$ 805	\$ 811	\$ 812	\$ 1	\$ —	\$ —	\$ —	\$ —
3.0%	1,059	1,083	1,086	3	567	557	566	9
3.5%	241	250	250	—	1,706	1,708	1,726	18
4.0%	75	78	78	—	1,350	1,370	1,381	11
Total 15-Year TBA securities	2,180	2,222	2,226	4	3,623	3,635	3,673	38
30-Year TBA securities:								
≤3.0%	5,008	5,052	5,073	21	1,028	981	1,003	22
3.5%	1,226	1,259	1,261	2	(2,979)	(2,943)	(2,977)	(34)
4.0%	(1,507)	(1,565)	(1,568)	(3)	3,030	3,073	3,089	16
≥ 4.5%	415	436	437	1	2,450	2,506	2,534	28
Total 30-Year TBA securities, net	5,142	5,182	5,203	21	3,529	3,617	3,649	32
Total TBA securities, net	\$ 7,322	\$ 7,404	\$ 7,429	\$ 25	\$ 7,152	\$ 7,252	\$ 7,322	\$ 70

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 fiscal years 2019, 2018 and 2017 (in millions):

Derivative and Other Hedging Instruments	Beginning Notional Amount	Additions	Settlement, Termination, Expiration or Exercise	Ending Notional Amount	Gain/(Loss) on Derivative Instruments and Other Securities, Net ¹
Fiscal Year 2019:					
TBA securities, net	\$ 7,152	95,169	(94,999)	\$ 7,322	\$ 411
Interest rate swaps - payer	\$ 51,625	166,975	(139,525)	\$ 79,075	(1,645)
Interest rate swaps - receiver	\$ —	(175)	175	\$ —	—
Payer swaptions	\$ 3,500	7,650	(2,300)	\$ 8,850	(26)
U.S. Treasury securities - short position	\$ (21,345)	(12,601)	24,722	\$ (9,224)	(967)
U.S. Treasury securities - long position	\$ 45	1,776	(1,726)	\$ 95	11
U.S. Treasury futures contracts - short position	\$ (1,650)	(5,300)	5,950	\$ (1,000)	(109)
					<u>\$ (2,325)</u>
Fiscal Year 2018:					
TBA securities, net	\$ 15,474	194,534	(202,856)	\$ 7,152	\$ (299)
Interest rate swaps	\$ 43,700	14,350	(6,425)	\$ 51,625	140
Payer swaptions	\$ 6,650	1,250	(4,400)	\$ 3,500	90
U.S. Treasury securities - short position	\$ (10,699)	(19,278)	8,632	\$ (21,345)	(161)
U.S. Treasury securities - long position	\$ —	1,949	(1,904)	\$ 45	1
U.S. Treasury futures contracts - short position	\$ (2,910)	(7,859)	9,119	\$ (1,650)	48
					<u>\$ (181)</u>
Fiscal Year 2017:					
TBA securities, net	\$ 10,916	237,601	(233,043)	\$ 15,474	\$ 330
Interest rate swaps	\$ 37,175	14,825	(8,300)	\$ 43,700	67
Payer swaptions	\$ 1,200	6,450	(1,000)	\$ 6,650	(66)
U.S. Treasury securities - short position	\$ (8,061)	(14,030)	11,392	\$ (10,699)	(141)
U.S. Treasury securities - long position	\$ 189	404	(593)	\$ —	1
U.S. Treasury futures contracts - short position	\$ (1,810)	(11,340)	10,240	\$ (2,910)	—
					<u>\$ 191</u>

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 6. 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 December 31, 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 December 31, 2019, approximately 10% of our tangible stockholder's equity was at risk with the Fixed Income Clearing Corporation.

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 December 31, 2019 and 2018 (in millions):

December 31, 2019					
Assets Pledged to Counterparties ¹	Repurchase Agreements ²	Debt of Consolidated VIEs	Derivative Agreements	Brokerage and Clearing Agreements ³	Total
Agency RMBS - fair value	\$ 92,142	\$ 371	\$ 404	\$ 206	\$ 93,123
CRT - fair value	309	—	—	—	309
U.S. Treasury securities - fair value	453	—	—	28	481
Accrued interest on pledged securities	267	1	1	1	270
Restricted cash and cash equivalents	111	—	340	—	451
Total	<u>\$ 93,282</u>	<u>\$ 372</u>	<u>\$ 745</u>	<u>\$ 235</u>	<u>\$ 94,634</u>
December 31, 2018					
Assets Pledged to Counterparties ¹	Repurchase Agreements ²	Debt of Consolidated VIEs	Derivative Agreements	Brokerage and Clearing Agreements ³	Total
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	<u>\$ 79,943</u>	<u>\$ 437</u>	<u>\$ 697</u>	<u>\$ 133</u>	<u>\$ 81,210</u>

1. Includes repledged assets received as collateral from counterparties.
2. Includes \$144 million and \$163 million of retained interests in our consolidated VIEs pledged as collateral under repurchase agreements as of December 31, 2019 and 2018, respectively.
3. Includes margin for TBAs cleared through prime brokers and other clearing deposits.

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 December 31, 2019 and 2018 (in millions). For the corresponding borrowings associated with the following amounts and the interest rates thereon, refer to Note 4.

Securities Pledged by Remaining Maturity of Repurchase Agreements ^{1,2}	December 31, 2019			December 31, 2018		
	Fair Value of Pledged Securities	Amortized Cost of Pledged Securities	Accrued Interest on Pledged Securities	Fair Value of Pledged Securities	Amortized Cost of Pledged Securities	Accrued Interest on Pledged Securities
≤ 30 days	\$ 56,990	\$ 55,951	\$ 167	\$ 49,944	\$ 50,654	\$ 156
> 30 and ≤ 60 days	14,410	14,114	42	14,586	14,810	46
> 60 and ≤ 90 days	7,637	7,536	20	7,770	7,843	24
> 90 days	13,510	13,286	38	6,882	7,079	21
Total	\$ 92,547	\$ 90,887	\$ 267	\$ 79,182	\$ 80,386	\$ 247

1. Includes \$144 million and \$163 million of retained interests in our consolidated VIEs pledged as collateral under repurchase agreements as of December 31, 2019 and 2018, respectively.
2. Excludes \$357 million and \$437 million of repledged U.S. Treasury securities received as collateral from counterparties as of December 31, 2019 and 2018, respectively.

Assets Pledged from Counterparties

As of December 31, 2019 and 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).

Assets Pledged to AGNC	December 31, 2019				December 31, 2018			
	Reverse Repurchase Agreements	Derivative Agreements	Repurchase Agreements	Total	Reverse Repurchase Agreements	Derivative Agreements	Repurchase Agreements	Total
U.S. Treasury securities - fair value ¹	\$ 10,099	\$ —	\$ 1	\$ 10,100	\$ 21,876	\$ 35	\$ 37	\$ 21,948
Cash	—	116	—	116	—	129	—	129
Total	\$ 10,099	\$ 116	\$ 1	\$ 10,216	\$ 21,876	\$ 164	\$ 37	\$ 22,077

1. As of December 31, 2019 and 2018, \$357 million and \$437 million, respectively, of U.S. Treasury securities received from counterparties were repledged as collateral and \$9.5 billion and \$21.4 billion, respectively, were used to cover short sales of U.S. Treasury securities.

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 December 31, 2019 and 2018 (in millions):

Offsetting of Financial and Derivative Assets

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
				Financial Instruments	Collateral Received ²	
December 31, 2019						
Interest rate swap and swaption agreements, at fair value ¹	\$ 147	\$ —	\$ 147	\$ (2)	\$ (116)	\$ 29
TBA securities, at fair value	29	—	29	(4)	—	25
Receivable under reverse repurchase agreements	10,181	—	10,181	(9,852)	(329)	—
Total	\$ 10,357	\$ —	\$ 10,357	\$ (9,858)	\$ (445)	\$ 54
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

Offsetting of Financial and Derivative Liabilities

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
				Financial Instruments	Collateral Pledged ²	
December 31, 2019						
Interest rate swap agreements, at fair value ¹	\$ 2	\$ —	\$ 2	\$ (2)	\$ —	\$ —
TBA securities, at fair value	4	—	4	(4)	—	—
Repurchase agreements	89,182	—	89,182	(9,852)	(79,330)	—
Total	\$ 89,188	\$ —	\$ 89,188	\$ (9,858)	\$ (79,330)	\$ —
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 5 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 7. 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 2 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 basis, as of December 31, 2019 and 2018, based on their categorization within the valuation hierarchy (in millions). There were no transfers between valuation hierarchy levels during the periods presented.

	December 31, 2019			December 31, 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:						
Agency securities	\$ —	\$ 98,516	\$ —	\$ —	\$ 82,291	\$ —
Agency securities transferred to consolidated VIEs	—	371	—	—	436	—
Credit risk transfer securities	—	976	—	—	1,012	—
Non-Agency securities	—	579	—	—	548	—
U.S. Treasury securities	97	—	—	46	—	—
Interest rate swaps	—	21	—	—	126	—
Swaptions	—	126	—	—	37	—
TBA securities	—	29	—	—	110	—
U.S. Treasury futures	14	—	—	—	—	—
Total	\$ 111	\$ 100,618	\$ —	\$ 46	\$ 84,560	\$ —
Liabilities:						
Debt of consolidated VIEs	\$ —	\$ 228	\$ —	\$ —	\$ 275	\$ —
Obligation to return U.S. Treasury securities borrowed under reverse repurchase agreements	9,543	—	—	21,431	—	—
Interest rate swaps	—	2	—	—	—	—
TBA securities	—	4	—	—	40	—
U.S. Treasury futures	—	—	—	44	—	—
Total	\$ 9,543	\$ 234	\$ —	\$ 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 8. Net Income Per Common Share

Basic net income per common share is computed by dividing (i) net income available to common stockholders by (ii) the sum of our weighted-average number of common shares outstanding and the weighted-average number of vested but not yet issued time and performance-based RSUs outstanding for the period granted under our long-term incentive program to employees and non-employee Board of Directors. Diluted net income per common share assumes the issuance of all potential common stock equivalents unless the effect is to reduce a loss or increase the income per common share. Our potential common stock equivalents consist of unvested time and performance-based RSUs. The following table presents the computations of basic and diluted net income (loss) per common share for the periods indicated (shares and dollars in millions):

	Fiscal Year		
	2019	2018	2017
Weighted average number of common shares issued and outstanding	540.2	440.9	358.6
Weighted average number of fully vested restricted stock units outstanding	0.4	0.2	—
Weighted average number of common shares outstanding - basic	540.6	441.1	358.6
Weighted average number of dilutive unvested restricted stock units outstanding	0.8	0.3	0.1
Weighted average number of common shares outstanding - diluted	541.4	441.4	358.7
Net income available to common stockholders	\$ 628	\$ 93	\$ 733
Net income per common share - basic	\$ 1.16	\$ 0.21	\$ 2.04
Net income per common share - diluted	\$ 1.16	\$ 0.21	\$ 2.04

Note 9. 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 December 31, 2019, 13,800, 10,350 and 16,100 shares were designated as 7.00% Series C, 6.875% Series D and 6.50% Series E Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, respectively, (referred to as Series C, D and E Preferred Stock, respectively). As of December 31, 2019, 13,000, 9,400 and 16,100 shares of Series C, D and E Preferred Stock, respectively, were issued and outstanding, with an aggregate carrying value of \$932 million and aggregate liquidation preference of \$963 million. As of December 31, 2018, 8,050 and 13,800 shares of 7.750% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock") and Series C Preferred Stock, respectively, were designated and 7,000 and 13,000 shares, respectively, were issued and outstanding with an aggregate carrying value of \$484 million and an aggregate liquidation preference of \$500 million. Each share of Series B, C, D and E Preferred Stock represents 1,000 Series B, C, D and E Preferred Stock depositary shares, respectively.

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 each series of preferred stock ranks on parity with one another. 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, we may redeem such shares at \$25.00 per depositary share, plus accumulated and unpaid dividends (whether or not declared), exclusively at our option.

In November 2019, we redeemed all of the outstanding shares (and corresponding depositary shares) of our Series B Preferred Stock for \$175 million (or \$25.00 per depositary share), plus accrued and unpaid dividends to, but not including, the redemption date. In December, 2019, we filed a Certificate of Elimination of our Series B Preferred Stock with the Secretary of State of the State of Delaware, which eliminated the designation of Series B Preferred Stock from our amended and restated certificate of incorporation. Prior to the redemption date, holders of Series B Preferred Stock were entitled to receive cumulative cash dividends at a fixed rate of 7.750% per annum of their \$25.00 per depositary share liquidation preference.

In September 2017, we redeemed all of the outstanding shares of our 8.000% Series A Cumulative Redeemable Preferred Stock for their aggregate liquidation preference of \$173 million, plus accrued and unpaid dividends, and, in October 2017, we eliminated the designation of Series A Preferred Stock from our amended and restated certificate of incorporation. Prior to the redemption date, holders of Series A Preferred Stock were entitled to receive cumulative cash dividends at a fixed rate of 8.000% per annum of their \$25.00 per share liquidation preference.

The following table includes a summary of preferred stock depositary shares issued and outstanding as of December 31, 2019 (dollars and shares in millions):

Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock ¹	Issuance Date	Depository Shares Issued and Outstanding	Carrying Value	Aggregate Liquidation Preference	Fixed Rate	Optional Redemption Date ²	Fixed-to-Floating Rate Conversion Date	Floating Annual Rate
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%
Series E	October 3, 2019	16.1	390	403	6.500%	October 15, 2024	October 15, 2024	3M LIBOR + 4.993%
Total		38.5	\$ 932	\$ 963				

1. Fixed-to-floating rate redeemable preferred stock accrue dividends at an annual fixed rate of the \$25.00 liquidation preference per depository 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 Offerings

During fiscal year 2019, we did not complete a follow-on public offering of our common stock. During fiscal years 2018 and 2017, we completed follow-on public offerings of our common stock summarized in the table below (in millions, except for per share data).

Follow-On Public Offering	Price Received Per Share, Net	Shares	Net Proceeds
Fiscal Year 2018:			
May 2018	\$18.35	34.5	\$ 633
August 2018	\$18.68	43.7	817
November 2018	\$17.09	46.0	786
Total fiscal year 2018		124.2	\$ 2,236
Fiscal Year 2017:			
May 2017	\$20.51	24.5	\$ 503
September 2017	\$20.47	28.2	577
Total fiscal year 2017		52.7	\$ 1,080

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. The table below summarizes sales our common stock under the sales agreements during fiscal years 2019, 2018 and 2017 (in millions, except for per share data). As of December 31, 2019, shares of our common stock with an aggregate offering price of \$466 million remained authorized for issuance under this program through June 14, 2021.

ATM Offerings	Average Price Received Per Share, Net	Shares	Net Proceeds
Fiscal Year 2019	\$16.67	11.4	\$ 190
Fiscal Year 2018	\$18.03	20.8	\$ 375
Fiscal Year 2017	\$20.96	7.6	\$ 159

Common Stock Repurchase Program

From time-to-time we are authorized by our Board of Directors to repurchase shares of our common stock under certain conditions. In July 2019, our Board of Directors authorized the repurchase of up to \$1 billion of our outstanding shares of common stock through December 31, 2020. During fiscal year 2019, we repurchased 6.9 million shares, or \$103 million, of our common stock for an average repurchase price of \$14.90 per common share, inclusive of transaction costs. As of December 31, 2019, we had \$0.9 billion of common stock remaining available for repurchase.

Distributions to Stockholders

The following table summarizes cash dividends declared during fiscal years 2019, 2018 and 2017 (in millions, except per share amounts):

	Dividends Declared	Dividends Declared Per Share
8.000 % Series A Cumulative Redeemable Preferred Stock		
Fiscal year 2017	\$ 9	\$ 1.333000
7.750% Series B Cumulative Redeemable Preferred Stock (Per Depositary Share)		
Fiscal year 2019	\$ 12	\$ 1.673785
Fiscal year 2018	\$ 14	\$ 1.937500
Fiscal year 2017	\$ 14	\$ 1.937500
7.00% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (Per Depositary Share)		
Fiscal year 2019	\$ 23	\$ 1.750000
Fiscal year 2018	\$ 23	\$ 1.750000
Fiscal year 2017	\$ 9	\$ 0.695140
7.00% Series D Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (Per Depositary Share)		
Fiscal year 2019	\$ 14	\$ 1.475263
7.00% Series E Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (Per Depositary Share)		
Fiscal year 2019	\$ 7	\$ 0.460420
Common Stock		
Fiscal year 2019	\$ 1,081	\$ 2.000000
Fiscal year 2018	\$ 964	\$ 2.160000
Fiscal year 2017	\$ 777	\$ 2.160000

Accumulated Other Comprehensive Income (Loss)

The following table summarizes changes to accumulated OCI for fiscal years 2019, 2018 and 2017 (in millions):

Accumulated Other Comprehensive Income (Loss)	Fiscal Year		
	2019	2018	2017
Beginning Balance	\$ (943)	\$ (345)	\$ (397)
OCI before reclassifications	1,031	(677)	(31)
Net loss amounts for available-for-sale securities reclassified from accumulated OCI to realized gain (loss) on sale of investment securities, net	9	79	83
Ending Balance	<u>\$ 97</u>	<u>\$ (943)</u>	<u>\$ (345)</u>

Note 10. Long-Term Incentive Compensation

Stock-Based Incentive Plans

The 2016 Equity Plan authorizes a total of 10 million shares of our common stock that may be used to satisfy awards under the Plan, subject to the share counting rules set forth within the Plan. During fiscal years 2019, 2018 and 2017, we granted RSU awards to employees with a grant date fair value of \$7 million, \$4 million and \$4 million, respectively, which vest annually over a three-year period. Additionally, during fiscal year 2018, we granted fully vested RSU awards to employees with a grant date fair value of \$4 million in exchange for satisfaction and conversion of AGNC's obligations of an equivalent value under outstanding long-term incentive compensation awards granted to employees under the MTGE Incentive Plan ("RSU Exchange Awards") (see *Other Long-Term Incentive Compensation* below). During fiscal years 2019, 2018 and 2017, we granted RSU awards to independent directors of \$0.5 million, \$0.5 million and \$0.5 million, respectively, which vest over a 12 to 13 month period.

The following table summarizes RSU awards under our 2016 Equity Plan for fiscal years 2019, 2018 and 2017:

2016 Equity Incentive Plan	RSU Awards	Weighted Average Grant Date Fair Value ¹	Weighted Average Vest Date Fair Value
Unvested balance as of December 31, 2016	102,375	\$ 17.72	\$ —
Granted	238,203	\$ 19.52	\$ —
Accrued RSU dividend equivalents	32,498	\$ —	\$ —
Vested	(37,602)	\$ 16.08	\$ 20.42
Forfeitures	(246)	\$ 18.29	\$ —
Unvested balance as of December 31, 2017	335,228	\$ 17.46	\$ —
Granted ²	261,036	\$ 18.05	\$ —
Accrued RSU dividend equivalents	56,618	\$ —	\$ —
Vested ²	(150,423)	\$ 16.52	\$ 18.60
Forfeitures	(546)	\$ 16.98	\$ —
Unvested balance as of December 31, 2018	501,913	\$ 16.08	\$ —
Granted	432,149	\$ 17.59	\$ —
Accrued RSU dividend equivalents	83,355	\$ —	\$ —
Vested	(252,375)	\$ 15.30	\$ 17.91
Forfeitures	(6,812)	\$ 16.00	\$ —
Unvested balance as of December 31, 2019	758,230	\$ 15.44	\$ —

1. Accrued RSU award dividend equivalents have a weighted average grant date fair value of \$0.

2. Excludes 185,285 of RSU Exchange Awards.

Prior to establishing the 2016 Equity Plan, we granted equity-based awards to independent directors per the terms of our AGNC Equity Incentive Plan for Independent Directors (the "Director Plan"). The Director Plan was terminated in December of 2016 and replaced by our 2016 Equity Plan. Outstanding awards under the Director Plan continued in effect in accordance with their terms. The following table summarizes RSU and restricted stock transactions under the Director Plan for fiscal year 2017:

Director Plan	Shares of Restricted Stock	RSU Awards	Weighted Average Grant Date Fair Value ¹	Weighted Average Vest Date Fair Value
Unvested balance as of December 31, 2017	—	21,435	\$ 17.49	\$ —
Accrued RSU dividend equivalents	—	1,032	\$ —	\$ —
Vested	—	(22,467)	\$ 16.69	\$ 20.15
Unvested balance as of December 31, 2017	—	—	\$ —	\$ —

1. Accrued RSU award dividend equivalents have a weighted average grant date fair value of \$0.

During fiscal years 2019, 2018 and 2017, we granted PSU awards to employees under our 2016 Equity Plan, which vest at the end of a three-year period provided that specified performance criteria are met. The performance criteria are based on a formula tied to our achievement of long-term economic returns consisting of the change in tangible net book value and dividends paid per common share on an absolute basis and relative to a select group of our peers. The fair value of the PSU awards granted during fiscal years 2019, 2018 and 2017 as of the grant date was \$9 million, \$5 million and \$5 million, respectively, assuming the target levels of performance are achieved, but the actual value will vary within a range of 0% to 200% of target based on actual performance achieved relative to the targets. The following table summarizes PSU awards under our 2016 Equity Plan for fiscal years 2019, 2018 and 2017.

2016 Equity Incentive Plan	PSUs at Target Performance Level	Weighted Average Grant Date Fair Value ¹
Unvested balance as of December 31, 2016	—	\$ —
Granted	250,609	\$ 19.39
Accrued PSU dividend equivalents	22,767	\$ —
Vested	—	\$ —
Unvested balance as of December 31, 2017	273,376	\$ 17.78
Granted	272,228	\$ 17.98
Accrued PSU dividend equivalents	61,171	\$ —
Vested	—	\$ —
Unvested balance as of December 31, 2018	606,775	\$ 16.08
Granted	494,016	\$ 17.56
Accrued PSU dividend equivalents	123,594	\$ —
Performance adjustment - 2017 PSU grant	95,427	\$ 19.39
Performance adjustment - accrued PSU dividend equivalents	35,825	\$ —
Vested	—	\$ —
Forfeitures	(4,224)	\$ 15.84
Unvested balance as of December 31, 2019	1,351,413	\$ 14.96

1. Accrued PSU award dividend equivalents have a weighted average grant date fair value of \$0.

As of December 31, 2019, 6.4 million shares remained available for awards under the 2016 Equity Plan. For purposes of determining the total number of shares available for awards under the 2016 Equity Plan, available shares are reduced by (i) shares issued for vested RSU awards, net of units withheld to cover minimum statutory tax withholding requirements paid by us in cash on behalf of the employee and (ii) outstanding unvested awards, (iii) outstanding previously vested awards, if distribution of such awards has been deferred beyond the vesting date ("deferred awards"), and (iv) accrued dividend equivalent units on outstanding awards through December 31, 2019. Unvested performance-based awards assume the maximum potential payout under the terms of the award. As of December 31, 2019, 0.4 million of deferred awards, including accrued DEUs, were outstanding.

During fiscal years 2019, 2018 and 2017, we recognized compensation expense of \$13.7 million, \$6.1 million and \$3.1 million, respectively, for stock-based awards to employees and we recognized other operating expense of \$0.5 million, \$0.5 million and \$0.5 million, respectively, for stock-based awards to independent directors. As of December 31, 2019, we had unrecognized expense related to stock-based awards of approximately \$15 million, which is expected to be recognized over a weighted average period of 1.5 years.

Other Long-Term Incentive Compensation

During fiscal years 2018 and 2017, we granted long-term incentive compensation awards to employees under our MTGE Incentive Plan (the "Incentive Plan"), with original grant date fair values of \$2 million and \$2 million, respectively. During 2018, all outstanding awards under the Incentive Plan became fully vested and the Incentive Plan was terminated. Awards for which distribution of vested amounts had been deferred beyond the vesting date were exchanged for RSU awards granted under the 2016 Equity Plan of equal value. During fiscal years 2018 and 2017, we recognized long-term incentive compensation expense associated with awards under the Incentive Plan of \$5 million and \$1 million, respectively.

Note 11. Income Taxes

As of December 31, 2019, we have distributed all of our estimated taxable income for fiscal year 2019. Accordingly, we do not expect to incur an income tax liability on our 2019 taxable income. For fiscal years 2018 and 2017, we distributed all of our taxable income within the time limits prescribed by the Internal Revenue Code. Accordingly, we did not incur an income tax liability on our taxable income for such periods.

Based on our analysis of any potential uncertain income tax positions, we concluded that we do not have any uncertain tax positions that meet the recognition or measurement criteria of ASC 740 as of December 31, 2019 or prior periods. Our tax returns for tax years 2016 and forward are open to examination by the IRS. If we incur income tax related interest and penalties, our policy is to classify them as a component of provision for income taxes.

Note 12. Quarterly Results (Unaudited)

The following is a presentation of the quarterly results of operations and comprehensive income (loss) for fiscal years 2019 and 2018 (in millions, except per share data).

	Quarter Ended			
	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019
Interest income:				
Interest income	\$ 705	\$ 693	\$ 676	\$ 768
Interest expense	541	570	557	481
Net interest income	164	123	119	287
Other gain (loss):				
Gain on sale of investment securities, net	60	132	89	107
Unrealized gain (loss) on investment securities measured at fair value through net income, net	1,060	759	355	(160)
Gain (loss) on derivative instruments and other securities, net	(1,000)	(1,438)	(548)	662
Total other gain (loss), net	120	(547)	(104)	609
Expenses:				
Compensation and benefits	10	11	10	16
Other operating expenses	9	9	9	9
Total expenses	19	20	19	25
Net income (loss)	265	(444)	(4)	871
Dividends on preferred stock	10	13	13	18
Issuance cost of redeemed preferred stock	—	—	—	6
Net income (loss) available (attributable) to common shareholders	<u>\$ 255</u>	<u>\$ (457)</u>	<u>\$ (17)</u>	<u>\$ 847</u>
Net income (loss)	\$ 265	\$ (444)	\$ (4)	\$ 871
Unrealized gain on investment securities measured at fair value through other comprehensive income (loss), net	400	379	246	15
Comprehensive income (loss)	665	(65)	242	886
Dividends on preferred stock	10	13	13	18
Issuance cost of redeemed preferred stock	—	—	—	6
Comprehensive income (loss) available (attributable) to common shareholders	<u>\$ 655</u>	<u>\$ (78)</u>	<u>\$ 229</u>	<u>\$ 862</u>
Weighted average number of common shares outstanding - basic	536.7	537.8	546.4	541.4
Weighted average number of common shares outstanding - diluted	537.2	537.8	546.4	542.6
Net income (loss) per common share - basic	<u>\$ 0.48</u>	<u>\$ (0.85)</u>	<u>\$ (0.03)</u>	<u>\$ 1.56</u>
Net income (loss) per common share - diluted	<u>\$ 0.47</u>	<u>\$ (0.85)</u>	<u>\$ (0.03)</u>	<u>\$ 1.56</u>
Comprehensive income (loss) per common share - basic	<u>\$ 1.22</u>	<u>\$ (0.15)</u>	<u>\$ 0.42</u>	<u>\$ 1.59</u>
Comprehensive income (loss) per common share - diluted	<u>\$ 1.22</u>	<u>\$ (0.15)</u>	<u>\$ 0.42</u>	<u>\$ 1.59</u>
Dividends declared per common share	<u>\$ 0.54</u>	<u>\$ 0.50</u>	<u>\$ 0.48</u>	<u>\$ 0.48</u>

	Quarter Ended			
	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
Interest income:				
Interest income	\$ 431	\$ 414	\$ 500	\$ 604
Interest expense	206	237	312	418
Net interest income	225	177	188	186
Other gain (loss):				
Loss on sale of investment securities, net	(2)	(74)	(40)	(21)
Unrealized gain (loss) on investment securities measured at fair value through net income, net	(523)	(94)	(363)	683
Gain (loss) on derivative instruments and other securities, net	738	298	430	(1,633)
Management fee income	4	4	46	—
Total other gain (loss), net	217	134	73	(971)
Expenses:				
Compensation and benefits	10	10	14	11
Other operating expenses	8	8	31	8
Total expenses	18	18	45	19
Net income (loss)	424	293	216	(804)
Dividends on preferred stock	9	9	9	9
Net income (loss) available (attributable) to common shareholders	<u>\$ 415</u>	<u>\$ 284</u>	<u>\$ 207</u>	<u>\$ (813)</u>
Net income (loss)	\$ 424	\$ 293	\$ 216	\$ (804)
Unrealized gain (loss) on investment securities measured at fair value through other comprehensive income (loss), net	(621)	(145)	(193)	361
Comprehensive income (loss)	(197)	148	23	(443)
Dividends on preferred stock	9	9	9	9
Comprehensive income (loss) available (attributable) to common shareholders	<u>\$ (206)</u>	<u>\$ 139</u>	<u>\$ 14</u>	<u>\$ (452)</u>
Weighted average number of common shares outstanding - basic	<u>391.3</u>	<u>404.9</u>	<u>462.3</u>	<u>504.2</u>
Weighted average number of common shares outstanding - diluted	<u>391.5</u>	<u>405.2</u>	<u>462.7</u>	<u>504.2</u>
Net income (loss) per common share - basic and diluted	<u>\$ 1.06</u>	<u>\$ 0.70</u>	<u>\$ 0.45</u>	<u>\$ (1.61)</u>
Comprehensive income (loss) per common share - basic and diluted	<u>\$ (0.53)</u>	<u>\$ 0.34</u>	<u>\$ 0.03</u>	<u>\$ (0.90)</u>
Dividends declared per common share	<u>\$ 0.54</u>	<u>\$ 0.54</u>	<u>\$ 0.54</u>	<u>\$ 0.54</u>

Note 13. Subsequent Events

Preferred Stock Offering

On February 11, 2020, we issued \$575 million, or 23 million depositary shares, of 6.125% Series F Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock ("Series F Preferred Stock"), for net proceeds of \$557 million. Each depositary share represents a 1/1,000th interest in a share of Series F Preferred Stock. At the conclusion of the Series F fixed rate period on April 15, 2025, the Series F Preferred Stock dividend will accrue at a floating rate equal to three-month LIBOR plus a spread of 4.697% per annum, and commencing on such date, the Series F Preferred Stock is redeemable at our option at the liquidation preference of \$25.00 per depositary share, plus any accrued and unpaid dividends.

Common Stock Dividend Declaration

On January 9, 2020 and February 13, 2020, our Board of Directors declared a monthly dividend of \$0.16 per common share payable on February 11, 2020 and March 10, 2020, respectively, to common stockholders of record as of January 31, 2020 and February 28, 2020, respectively.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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 December 31, 2019. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting

Management Report on Internal Control over Financial Reporting is included in "Item 8. Financial Statements and Supplementary Data."

Attestation Report of Registered Public Accounting Firm

The attestation report of our registered public accounting firm is included in "Item 8. Financial Statements and Supplementary Data."

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.

Item 9B. Other Information

None.

PART III.

Item 10. *Directors, Executive Officers and Corporate Governance*

Information in response to this Item is incorporated herein by reference to the information provided in our Proxy Statement for our 2020 Annual Meeting of Stockholders (the "2020 Proxy Statement") under the headings "PROPOSAL 1: ELECTION OF DIRECTORS", "EXECUTIVE OFFICERS", "BOARD AND GOVERNANCE MATTERS", and "DELINQUENT SECTION 16 (a) REPORTS."

Item 11. *Executive Compensation*

Information in response to this Item is incorporated herein by reference to the information provided in the 2020 Proxy Statement under the headings "PROPOSAL 1: ELECTION OF DIRECTORS", "EXECUTIVE COMPENSATION", "COMPENSATION DISCUSSION AND ANALYSIS", "REPORT OF THE COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE", and "COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION."

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

Information in response to this Item is incorporated herein by reference to the information provided in the 2020 Proxy Statement under the heading "SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS."

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

Information in response to this Item is incorporated herein by reference to the information provided in the 2020 Proxy Statement under the headings "CERTAIN TRANSACTIONS WITH RELATED PERSONS" and "PROPOSAL 1: ELECTION OF DIRECTORS."

Item 14. *Principal Accounting Fees and Services*

Information in response to this Item is incorporated herein by reference to the information provided in the 2020 Proxy Statement under the heading "PROPOSAL 4: RATIFICATION OF APPOINTMENT OF INDEPENDENT PUBLIC ACCOUNTANT."

PART IV.

Item 15. *Exhibits and Financial Statement Schedules*

(a) List of documents filed as part of this report:

(1) The following financial statements are filed herewith:

Consolidated Balance Sheets as of December 31, 2019 and 2018
Consolidated Statements of Comprehensive Income for fiscal years 2019, 2018 and 2017
Consolidated Statements of Stockholders' Equity for fiscal years 2019, 2018 and 2017
Consolidated Statements of Cash Flows for fiscal years 2019, 2018 and 2017

(2) The following exhibits are filed herewith or incorporated herein by reference

<u>Exhibit No.</u>	<u>Description</u>
*3.1	AGNC Investment Corp. Amended and Restated Certificate of Incorporation, as amended, incorporated herein by reference to Exhibit 3.1 of Form 10-Q for the quarter ended March 31, 2018 (File No. 001-34057), filed May 7, 2018.
*3.2	AGNC Investment Corp. Third Amended and Restated Bylaws, as amended, incorporated herein by reference to Exhibit 3.2 of Form 10-Q for the quarter ended September 30, 2016 (File No. 001-34057), filed November 7, 2016.
*3.3	Certificate of Designations of 7.00% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, incorporated herein by reference to Exhibit 3.5 of Form 8-A (File No. 001-34057), filed August 18, 2017.
*3.4	Certificate of Elimination of 8.000% Series A Cumulative Redeemable Preferred Stock, incorporated herein by reference to Exhibit 3.1 of Form 8-K (File No 001-34057), filed October 26, 2017.
*3.5	Certificate of Designations of 6.875% Series D Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, incorporated herein by reference to Exhibit 3.5 of Form 8-A (File No 001-34057), filed March 6, 2019.
*3.6	Certificate of Designations of 6.50% Series E Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, incorporated herein by reference to Exhibit 3.6 of Form 8-A (File No 001-34057), filed October 3, 2019.
*3.7	Certificate of Elimination of 7.750% Series B Cumulative Redeemable Preferred Stock, incorporated herein by reference to Exhibit 3.1 of Form 8-K (File No 001-34057), filed December 13, 2019.
*3.8	Certificate of Designations of 6.125% Series F Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, incorporated herein by reference to Exhibit 3.6 of Form 8-A (File No 001-34057), filed February 11, 2020.
*4.1	Instruments defining the rights of holders of securities: See Article IV of our Amended and Restated Certificate of Incorporation, as amended, incorporated herein by reference to Exhibit 3.1 of Form 10-Q for the quarter ended March 31, 2018 (File No. 001-34057) filed May 7, 2018.
*4.2	Instruments defining the rights of holders of securities: See Article VI of our Third Amended and Restated Bylaws, as amended, incorporated herein by reference to Exhibit 3.2 of Form 10-Q for the quarter ended September 30, 2016 (File No. 001-34057) filed November 7, 2016.
*4.3	Form of Certificate for Common Stock, incorporated herein by reference to Exhibit 4.3 of Form 10-Q for the quarter ended September 30, 2016 (File No. 001-34057), filed November 7, 2016.
*4.4	Specimen 7.00% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock Certificate, incorporated herein by reference to Exhibit 4.1 of Form 8-A (File No. 001-34057), filed August 18, 2017.
*4.5	Specimen 6.875% Series D Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock Certificate, incorporated herein by reference to Exhibit 4.1 of Form 8-A (File No. 001-34057), filed March 6, 2019.
*4.6	Specimen 6.50% Series E Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock Certificate, incorporated herein by reference to Exhibit 4.1 of Form 8-A (File No. 001-34057), filed October 3, 2019.

- *4.7 Specimen 6.125% Series F Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock Certificate, incorporated herein by reference to Exhibit 4.1 of Form 8-A (File No 001-34057), filed February 11, 2020.
- *4.8 Deposit Agreement relating to 7.00% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, dated August 22, 2017, among AGNC Investment Corp., Computershare Inc. and Computershare Trust Company, N.A., jointly as depository, incorporated herein by reference to Exhibit 4.2 of Form 8-K (File No. 001-34057) filed August 22, 2017.
- *4.9 Form of Depository Receipt representing 1/1,000th of a share of 7.00% Series C Fixed-to-Floating Rate Cumulative 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 (File No. 001-34057) filed August 22, 2017.
- *4.10 Deposit Agreement relating to 6.875% Series D Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, dated March 6, 2019, among AGNC Investment Corp., Computershare Inc. and Computershare Trust Company, N.A., jointly as depository, incorporated herein by reference to Exhibit 4.2 of Form 8-K (File No. 001-34057) filed March 6, 2019.
- *4.11 Form of Depository Receipt representing 1/1,000th of a share of 6.875% Series D Fixed-to-Floating Rate Cumulative 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 (File No. 001-34057) filed March 6, 2019.
- *4.12 Deposit Agreement relating to 6.50% Series E Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, dated October 3, 2019, among AGNC Investment Corp., Computershare Inc. and Computershare Trust Company, N.A., jointly as depository, incorporated herein by reference to Exhibit 4.2 of Form 8-K (File No. 001-34057) filed October 3, 2019.
- *4.13 Form of Depository Receipt representing 1/1,000th of a share of 6.50% Series E Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (included as part of Exhibit 4.14), incorporated herein by reference to Exhibit A of Exhibit 4.2 of Form 8-K (File No. 001-34057) filed October 3, 2019.
- *4.14 Deposit Agreement relating to 6.125% Series F Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, dated February 11, 2020, among AGNC Investment Corp., Computershare Inc. and Computershare Trust Company, N.A., jointly as depository, incorporated herein by reference to Exhibit 4.1 of Form 8-K (File No. 001-34057) filed February 11, 2020.
- *4.15 Form of Depository Receipt representing 1/1,000th of a share of 6.125% Series F Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (included as part of Exhibit 4.14), incorporated herein by reference to Exhibit A of Exhibit 4.1 of Form 8-K (File No. 001-34057) filed February 11, 2020.
- †* 10.1 Fourth Amended and Restated Employment Agreement, dated January 25, 2019, by and between AGNC Mortgage Management, LLC and Gary Kain, incorporated herein by reference to Exhibit 10.2 of Form 8-K (File No. 001-34057), filed January 25, 2019.
- †* 10.2 Third Amended and Restated Employment Agreement, dated November 1, 2016, by and between AGNC Mortgage Management, LLC and Peter J. Federico, incorporated herein by reference to Exhibit 10.2 of Form 8-K (File No. 001-34057), filed November 4, 2016.
- †* 10.3 Third Amended and Restated Employment Agreement, dated November 1, 2016, by and between AGNC Mortgage Management, LLC and Christopher J. Kuehl, incorporated herein by reference to Exhibit 10.3 of Form 8-K (File No. 001-34057), filed November 4, 2016.
- †* 10.4 Employment Agreement, dated as of January 25, 2019, by and between Bernice Bell and AGNC Mortgage Management, LLC, incorporated herein by reference to Exhibit 10.1 of Form 8-K (File No. 001-34057), filed January 25, 2019.
- †* 10.5 Employment Agreement, dated as of January 25, 2019, by and between Aaron J. Pas and AGNC Mortgage Management, LLC, incorporated herein by reference to Exhibit 10.3 of Form 8-K (File No. 001-34057), filed January 25, 2019.
- †* 10.6 Employment Agreement, dated December 18, 2017, by and between Kenneth L. Pollack and AGNC Mortgage Management, LLC, incorporated herein by reference to Exhibit 10.3 of Form 8-K (File No. 001-34057), filed December 18, 2017.

- †* 10.7 First Amendment to Employment Agreement by and between Kenneth L. Pollack and AGNC Mortgage Management, LLC, incorporated herein by reference to Exhibit 10.4 of Form 8-K (File No. 001-34057), filed January 25, 2019.
- †* 10.8 Form of First Amendment to the Amended and Restated Employment Agreement, dated February 13, 2020, by and between AGNC Mortgage Management, LLC and each of Peter J. Federico and Christopher J. Kuehl, incorporated herein by reference to Exhibit 10.1 of Form 8-K (File No. 001-34057), filed February 14, 2020.
- †* 10.9 Form of Amendment to the Amended and Restated Employment Agreement, dated February 13, 2020, by and between AGNC Mortgage Management, LLC and each of Bernice Bell, Aaron Pas and Kenneth Pollack, incorporated herein by reference to Exhibit 10.2 of Form 8-K (File No. 001-34057), filed February 14, 2020.
- †* 10.10 AGNC Investment Corp. 2016 Equity and Incentive Compensation Plan, incorporated herein by reference to Exhibit 10.7 of Form 10-K (File No. 001-34057), filed February 27, 2017.
- †* 10.11 Form of AGNC Investment Corp. 2016 Equity and Incentive Compensation Plan Restricted Stock Unit Agreement for Section 16 Officers with Employment Contracts, incorporated herein by reference to Exhibit 10.8 of Form 10-K (File No. 001-34057), filed February 27, 2017.
- †* 10.12 Form of AGNC Investment Corp. 2016 Equity and Incentive Compensation Plan Performance-Based Restricted Stock Unit Agreement for Section 16 Officers with Employment Contracts, incorporated herein by reference to Exhibit 10.9 of Form 10-K (File No. 001-34057), filed February 27, 2017.
- †* 10.13 Form of AGNC Investment Corp. 2016 Equity and Incentive Compensation Plan Restricted Stock Unit Agreement for Section 16 Officers without Employment Contracts, incorporated herein by reference to Exhibit 10.10 of Form 10-K (File No. 001-34057), filed February 27, 2017.
- †* 10.14 Form of AGNC Investment Corp. 2016 Equity and Incentive Compensation Plan Performance-Based Restricted Stock Unit Agreement for Section 16 Officers without Employment Contracts, incorporated herein by reference to Exhibit 10.11 of Form 10-K (File No. 001-34057), filed February 27, 2017.
- †* 10.15 Form of AGNC Investment Corp. 2016 Equity and Incentive Compensation Plan Restricted Stock Unit Agreement for Non-Employee Directors, incorporated herein by reference to Exhibit 10.14 of Form 10-K (file No. 001-34057), filed February 26, 2018.
- †* 10.16 Form of AGNC Investment Corp. 2016 Equity and Incentive Compensation Plan Deferred Stock Unit Agreement incorporated herein by reference to Exhibit 10 of Form 10-Q (File No. 001-34057) filed November 5, 2018.
- †* 10.17 Form of AGNC Investment Corp. 2016 Equity and Incentive Compensation Plan Restricted Stock Unit Agreement for Section 16 Officers with Retirement Provisions, incorporated herein by reference to Exhibit 10.15 of Form 10-K (File No. 001-34057), filed February 22, 2019.
- †* 10.18 Form of AGNC Investment Corp. 2016 Equity and Incentive Compensation Plan Performance-Based Restricted Stock Unit Agreement for Section 16 Officers with Retirement Provisions, incorporated herein by reference to Exhibit 10.16 of Form 10-K (File No. 001-34057), filed February 22, 2019.
- †* 10.19 Form of AGNC Investment Corp. 2016 Equity and Incentive Compensation Plan Performance-Based Restricted Stock Unit Agreement for Section 16 Officers with Employment Contracts, incorporated herein by reference to Exhibit 10.17 of Form 10-K (File No. 001-34057), filed February 22, 2019.
- 14 AGNC Investment Corp. Code of Ethics and Conduct, adopted January 23, 2020, filed herewith.
- 21 Subsidiaries of the Company and jurisdiction of incorporation:
- 1) AGNC TRS, LLC, a Delaware limited liability company
 - 2) Old Georgetown Insurance Co. LLC, a Missouri limited liability company
 - 3) Bethesda Securities, LLC, a Delaware limited liability company
 - 4) AGNC Mortgage Management, LLC, a Delaware limited liability company

	5) CT Collateral Funding, LLC, a Delaware limited liability company
23	Consent of Ernst & Young LLP, filed herewith.
24	Powers of Attorney of directors, filed herewith.
31.1	Certification of CEO Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.2	Certification of CFO Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
32	Certification of CEO and CFO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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

* 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 Regulation S-K

† Management contract or compensatory plan or arrangement

- (b) Exhibits
See the exhibits filed herewith.
- (c) Additional financial statement schedules
None.

BOARD OF DIRECTORS

Prue B. Larocca

Independent Board Chair

Donna J. Blank

Independent Director

Morris A. Davis, Ph.D.

Independent Director

John D. Fisk

Independent Director

Gary D. Kain

Chief Executive Officer and Chief Investment Officer

Paul E. Mullings

Independent Director

Frances R. Spark

Independent Director

EXECUTIVE OFFICERS

Gary D. Kain

Chief Executive Officer and Chief Investment Officer

Peter J. Federico

President and Chief Operating Officer

Bernice E. Bell

Senior Vice President and Chief Financial Officer

Christopher J. Kuehl

Executive Vice President

Aaron J. Pas

Senior Vice President

Kenneth L. Pollack

Senior Vice President, General Counsel,
Chief Compliance Officer and Secretary

CORPORATE INFORMATION

Auditors

Ernst & Young LLP, Tysons, VA

Legal Counsel

Skadden, Arps, Slate, Meagher & Flom LLP,
New York, NY

Equity Securities

Common I Nasdaq: AGNC

Preferred I Nasdaq: AGNCM, AGNCN, AGNCO, AGNCP

Transfer Agent and Registrar

Computershare Investor Services

P.O. Box 505000

Louisville, KY 40233-5000

(800) 733-5001

www.computershare.com/investor

Financial Publications

Stockholders may receive a copy of our 2019 Annual Report on Form 10-K and our quarterly reports on Form 10-Q filed with the Securities and Exchange Commission on our website at www.ir.agnc.com or by writing to:

AGNC Investment Corp.

Investor Relations

2 Bethesda Metro Center

12th Floor

Bethesda, MD 20814

Investor Inquiries

Stockholders, securities analysts, portfolio managers and others seeking information about our business operations and financial performance are invited to contact Investor Relations at: (301) 968-9300 or IR@AGNC.com.



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