**UNITED STATES**



**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

**1934**

**For the quarterly period ended September 30, 2018**

**OR**

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

**1934**

**Commission file number 001-34057**



**AGNC INVESTMENT CORP.**

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

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

**Delaware**

**26-1701984**

**(State or Other Jurisdiction of**

**Incorporation or Organization)**

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

**Identification No.)**

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

**Bethesda, Maryland 20814**

**(Address of principal executive offices)**

**(301) 968-9315**

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

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

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

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

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

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

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

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

The number of shares of the issuer's common stock, $0.01 par value, outstanding as of October 26, 2018 was 477,831,997.



**AGNC INVESTMENT CORP.**

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**PART I. FINANCIAL INFORMATION**

**Item 1. *Financial Statements***

**AGNC INVESTMENT CORP.**

**CONSOLIDATED BALANCE SHEETS**

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **September 30, 2018** |  |  | **December 31, 2017** |  |
|  |  | **(Unaudited)** | |  |  |  |
| **Assets:** |  |  |  |  |  |  |
| Agency securities, at fair value (including pledged securities of $67,889 and $53,055, respectively) | $ | 70,408 |  | $ | 55,506 |  |
|  |  |  |  |  |  |  |
| Agency securities transferred to consolidated variable interest entities, at fair value (pledged securities) |  | 453 |  |  | 662 |  |
| Credit risk transfer securities, at fair value (including pledged securities of $44 and $0, respectively) |  | 997 |  |  | 876 |  |
|  |  |  |  |  |  |  |
| Non-Agency securities, at fair value |  | 507 |  |  | 36 |  |
| U.S. Treasury securities, at fair value (including pledged securities of $45 and $0, respectively) |  | 109 |  |  | — |  |
|  |  |  |  |  |  |  |
| REIT equity securities, at fair value |  | — | |  | 29 |  |
| Cash and cash equivalents |  | 1,071 |  |  | 1,046 |  |
|  |  |  |  |  |  |  |
| Restricted cash |  | 456 |  |  | 317 |  |
| Derivative assets, at fair value |  | 412 |  |  | 205 |  |
|  |  |  |  |  |  |  |
| Receivable for investment securities sold (including pledged securities of $443 and $0, respectively) |  | 524 |  |  | — |  |
| Receivable under reverse repurchase agreements |  | 16,309 |  |  | 10,961 |  |
|  |  |  |  |  |  |  |
| Goodwill and other intangible asset, net |  | 526 |  |  | 551 |  |
| Other assets |  | 259 |  |  | 187 |  |
|  |  |  |  |  |  |  |
| Total assets | $ | 92,031 |  | $ | 70,376 |  |
| **Liabilities:** |  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Repurchase agreements | $ | 65,734 |  | $ | 50,296 |  |
| Debt of consolidated variable interest entities, at fair value |  | 291 |  |  | 357 |  |
|  |  |  |  |  |  |  |
| Payable for investment securities purchased |  | 23 |  |  | 95 |  |
| Derivative liabilities, at fair value |  | 62 |  |  | 28 |  |
|  |  |  |  |  |  |  |
| Dividends payable |  | 95 |  |  | 80 |  |
| Obligation to return securities borrowed under reverse repurchase agreements, at fair value |  | 15,549 |  |  | 10,467 |  |
|  |  |  |  |  |  |  |
| Accounts payable and other liabilities |  | 650 |  |  | 299 |  |
| Total liabilities |  | 82,404 |  |  | 61,622 |  |
|  |  |  |  |  |  |  |
| **Stockholders' equity:** |  |  |  |  |  |  |
| 7.750% Series B Cumulative Redeemable Preferred Stock (aggregate liquidation preference of $175) |  | 169 |  |  | 169 |  |
|  |  |  |  |  |  |  |
| 7.000% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (aggregate liquidation preference of |  |  |  |  |  |  |
| $325) |  | 315 |  |  | 315 |  |
| Common stock - $0.01 par value; 900 and 600 shares authorized, respectively; 477.8 and 391.3 shares issued and |  |  |  |  |  |  |
| outstanding, respectively |  | 5 |  |  | 4 |  |
|  |  |  |  |  |  |  |
| Additional paid-in capital |  | 12,785 |  |  | 11,173 |  |
| Retained deficit |  | (2,343) |  |  | (2,562) |  |
|  |  |  |  |  |  |  |
| Accumulated other comprehensive loss |  | (1,304) |  |  | (345) |  |
| Total stockholders' equity |  | 9,627 |  |  | 8,754 |  |
|  |  |  |  |  |  |  |
| Total liabilities and stockholders' equity | $ | 92,031 |  | $ | 70,376 |  |
|  |  |  |  |  |  |  |

See accompanying notes to consolidated financial statements.

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**AGNC INVESTMENT CORP.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(Unaudited)**

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

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended** | | | | |  | **Nine Months Ended** | | | |
|  |  | **September 30,** | | | | |  | **September 30,** | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **2018** |  |  | **2017** |  |  | **2018** |  |  | **2017** |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Interest income:** |  |  |  |  |  |  |  |  |  |  |  |
| Interest income | $ | 500 |  | $ | 318 |  | $ | 1,345 |  | $ | 907 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Interest expense |  | 312 |  |  | 140 |  |  | 755 |  |  | 350 |
| Net interest income |  | 188 |  |  | 178 |  |  | 590 |  |  | 557 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Other gain (loss), net:** |  |  |  |  |  |  |  |  |  |  |  |
| Gain (loss) on sale of investment securities, net |  | (40) |  |  | 22 |  |  | (116) |  |  | (47) |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Unrealized loss on investment securities measured at fair value through net income, net |  | (363) |  |  | (31) |  |  | (980) |  |  | (6) |
| Gain (loss) on derivative instruments and other securities, net |  | 430 |  |  | 131 |  |  | 1,466 |  |  | (78) |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Management fee income |  | 46 |  |  | 4 |  |  | 54 |  |  | 12 |
| Total other gain (loss), net: |  | 73 |  |  | 126 |  |  | 424 |  |  | (119) |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Expenses:** |  |  |  |  |  |  |  |  |  |  |  |
| Compensation and benefits |  | 14 |  |  | 10 |  |  | 34 |  |  | 30 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Other operating expense |  | 31 |  |  | 8 |  |  | 47 |  |  | 22 |
| Total operating expense |  | 45 |  |  | 18 |  |  | 81 |  |  | 52 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Net income** |  | 216 |  |  | 286 |  |  | 933 |  |  | 386 |
| Dividend on preferred stock |  | 9 |  |  | 9 |  |  | 27 |  |  | 23 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Issuance costs of redeemed preferred stock |  | — | |  | 6 |  |  | — | |  | 6 |
| **Net income available to common stockholders** | $ | 207 |  | $ | 271 |  | $ | 906 |  | $ | 357 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Net income** | $ | 216 |  | $ | 286 |  | $ | 933 |  | $ | 386 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Other comprehensive income (loss):** |  |  |  |  |  |  |  |  |  |  |  |
| Unrealized gain (loss) on available-for-sale securities, net |  | (193) |  |  | 90 |  |  | (959) |  |  | 257 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Comprehensive income (loss)** |  | 23 |  |  | 376 |  |  | (26) |  |  | 643 |
| Dividend on preferred stock |  | 9 |  |  | 9 |  |  | 27 |  |  | 23 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Issuance costs of redeemed preferred stock |  | — | |  | 6 |  |  | — | |  | 6 |
| **Comprehensive income (loss) available (attributable) to common stockholders** | $ | 14 |  | $ | 361 |  | $ | (53) |  | $ | 614 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Weighted average number of common shares outstanding - basic** |  | 462.3 |  |  | 364.7 |  |  | 419.8 |  |  | 347.5 |
| **Weighted average number of common shares outstanding - diluted** |  | 462.7 |  |  | 364.9 |  |  | 420.1 |  |  | 347.6 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Net income per common share - basic** | $ | 0.45 |  | $ | 0.74 |  | $ | 2.16 |  | $ | 1.03 |
| **Net income per common share - diluted** | $ | 0.45 |  | $ | 0.74 |  | $ | 2.16 |  | $ | 1.03 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Dividends declared per common share** | $ | 0.54 |  | $ | 0.54 |  | $ | 1.62 |  | $ | 1.62 |
|  |  |  |  |  |  |  |  |  |  |  |  |

See accompanying notes to consolidated financial statements.

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**AGNC INVESTMENT CORP.**

**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

**(Unaudited)**

**(in millions)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **7.000% Series** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **8.000% Series** | | | **7.750% Series** | | |  | **C Fixed-to-** | | **Common Stock** | | | | |  |  |  |  |  |  |  | **Accumulated** | |  |  |  |
|  |  | **Floating Rate** | |  |  |  |  |  |  |  |  |  |  |
|  | **A Cumulative** | | |  | **B Cumulative** | |  | **Cumulative** | |  |  |  |  |  |  | **Additional** | |  | **Retained** | |  | **Other** | |  |  |  |
|  |  | **Redeemable** | |  | **Redeemable** | |  | **Redeemable** | | **Shares** |  | **Amount** | |  |  | **Paid-in** | |  |  | **Comprehensive** | |  | **Total** |  |
|  | **Preferred Stock** | |  | **Preferred Stock** | |  | **Preferred Stock** | |  |  | **Capital** |  |  | **Deficit** |  |  | **Income (Loss)** |  |  |  |
| **Balance, December 31, 2016** | $ | 167 |  | $ | 169 |  | $ | — | | 331.0 |  | $ | 3 |  | $ | 9,932 |  | $ | (2,518) |  | $ | (397) |  | $ | 7,356 |  |
| Net income |  | — | |  | — | |  | — | | — | |  | — | |  | — | |  | 386 |  |  | — | |  | 386 |  |
| Other comprehensive income: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Unrealized gain on available- |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| for-sale securities, net |  | — | |  | — | |  | — | | — | |  | — | |  | — | |  | — | |  | 257 |  |  | 257 |  |
| Stock-based compensation |  | — | |  | — | |  | — | | — | |  | — | |  | 3 |  |  | — | |  | — | |  | 3 |  |
| Issuance of preferred stock |  | — | |  | — | |  | 315 |  | — | |  | — | |  | — | |  | — | |  | — | |  | 315 |  |
| Redemption of preferred |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| stock |  | (167) |  |  | — | |  | — | | — | |  | — | |  | — | |  | (6) |  |  | — | |  | (173) |  |
| Issuance of common stock |  | — | |  | — | |  | — | | 60.3 |  |  | 1 |  |  | 1,237 |  |  | — | |  | — | |  | 1,238 |  |
| Preferred dividends declared |  | — | |  | — | |  | — | | — | |  | — | |  | — | |  | (23) |  |  | — | |  | (23) |  |
| Common dividends declared |  | — |  |  | — |  |  | — |  | — |  |  | — |  |  | — |  |  | (568) |  |  | — |  |  | (568) |  |
| **Balance, September 30, 2017** | $ | — | | $ | 169 |  | $ | 315 |  | 391.3 |  | $ | 4 |  | $ | 11,172 |  | $ | (2,729) |  | $ | (140) |  | $ | 8,791 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Balance, December 31, 2017** | $ | — | | $ | 169 |  | $ | 315 |  | 391.3 |  | $ | 4 |  | $ | 11,173 |  | $ | (2,562) |  | $ | (345) |  | $ | 8,754 |  |
| Net income |  | — | |  | — | |  | — | | — | |  | — | |  | — | |  | 933 |  |  | — | |  | 933 |  |
| Other comprehensive loss: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Unrealized loss on available- |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| for-sale securities, net |  | — | |  | — | |  | — | | — | |  | — | |  | — | |  | — | |  | (959) |  |  | (959) |  |
| Stock-based compensation |  | — | |  | — | |  | — | | — | |  | — | |  | 8 |  |  | — | |  | — | |  | 8 |  |
| Issuance of common stock |  | — | |  | — | |  | — | | 86.5 |  |  | 1 |  |  | 1,604 |  |  | — | |  | — | |  | 1,605 |  |
| Preferred dividends declared |  | — | |  | — | |  | — | | — | |  | — | |  | — | |  | (27) |  |  | — | |  | (27) |  |
| Common dividends declared |  | — |  |  | — |  |  | — |  | — |  |  | — |  |  | — |  |  | (687) |  |  | — |  |  | (687) |  |
| **Balance, September 30, 2018** | $ | — | | $ | 169 |  | $ | 315 |  | 477.8 |  | $ | 5 |  | $ | 12,785 |  | $ | (2,343) |  | $ | (1,304) |  | $ | 9,627 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

See accompanying notes to consolidated financial statements.

4

**AGNC INVESTMENT CORP.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

**(in millions)**

**Nine Months Ended September**

**30,**



|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **2018** |  |  | **2017** |
|  |  |  |  |  |  |
| **Operating activities:** |  |  |  |  |  |
| Net income | $ | 933 |  | $ | 386 |
|  |  |  |  |  |  |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |  |  |  |  |
| Amortization of premiums and discounts on mortgage-backed securities, net |  | 224 |  |  | 282 |
|  |  |  |  |  |  |
| Amortization of intangible assets |  | 25 |  |  | 3 |
| Stock-based compensation |  | 5 |  |  | 3 |
|  |  |  |  |  |  |
| Loss on sale of investment securities, net |  | 116 |  |  | 47 |
| Unrealized loss on investment securities measured at fair value through net income, net |  | 980 |  |  | 6 |
|  |  |  |  |  |  |
| (Gain) loss on derivative instruments and other securities, net |  | (1,466) |  |  | 78 |
| (Increase) decrease in other assets |  | (71) |  |  | 99 |
|  |  |  |  |  |  |
| Increase in accounts payable and other accrued liabilities |  | 94 |  |  | 31 |
| Net cash provided by operating activities |  | 840 |  |  | 935 |
|  |  |  |  |  |  |
| **Investing activities:** |  |  |  |  |  |
| Purchases of Agency mortgage-backed securities |  | (29,615) |  |  | (23,823) |
|  |  |  |  |  |  |
| Purchases of credit risk transfer and non-Agency securities |  | (1,051) |  |  | (881) |
| Proceeds from sale of Agency mortgage-backed securities |  | 6,696 |  |  | 13,390 |
|  |  |  |  |  |  |
| Proceeds from sale of credit risk transfer and non-Agency securities |  | 483 |  |  | 437 |
| Principal collections on Agency mortgage-backed securities |  | 5,317 |  |  | 5,076 |
|  |  |  |  |  |  |
| Principal collections on credit risk transfer and non-Agency securities |  | 9 |  |  | 4 |
| Payments on U.S. Treasury securities |  | (7,119) |  |  | (10,618) |
|  |  |  |  |  |  |
| Proceeds from U.S. Treasury securities |  | 12,381 |  |  | 11,682 |
| Net payments on reverse repurchase agreements |  | (5,175) |  |  | (1,456) |
|  |  |  |  |  |  |
| Net proceeds from derivative instruments |  | 1,087 |  |  | 38 |
| Net proceeds from (payments on) other investing activity |  | 30 |  |  | (4) |
|  |  |  |  |  |  |
| Net cash used in investing activities |  | (16,957) |  |  | (6,155) |
| **Financing activities:** |  |  |  |  |  |
|  |  |  |  |  |  |
| Proceeds from repurchase arrangements |  | 1,299,744 |  |  | 294,885 |
| Payments on repurchase agreements |  | (1,284,306) |  |  | (287,238) |
|  |  |  |  |  |  |
| Payments on Federal Home Loan Bank advances |  | — | |  | (3,037) |
| Payments on debt of consolidated variable interest entities |  | (63) |  |  | (80) |
|  |  |  |  |  |  |
| Net proceeds from preferred stock issuances |  | — | |  | 315 |
| Payment for preferred stock redemption |  | — | |  | (173) |
|  |  |  |  |  |  |
| Net proceeds from common stock issuances |  | 1,605 |  |  | 1,238 |
| Cash dividends paid |  | (699) |  |  | (580) |
|  |  |  |  |  |  |
| Net cash provided by financing activities |  | 16,281 |  |  | 5,330 |
| Net change in cash, cash equivalents and restricted cash |  | 164 |  |  | 110 |
|  |  |  |  |  |  |
| Cash, cash equivalents and restricted cash at beginning of period |  | 1,363 |  |  | 1,282 |
| Cash, cash equivalents and restricted cash at end of period | $ | 1,527 |  | $ | 1,392 |



See accompanying notes to consolidated financial statements.



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**AGNC INVESTMENT CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1. Basis of Presentation**

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

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

***Adoption of Accounting Standard Updates***

As of January 1, 2018, we adopted Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606),* and ASU 2016-18*, Statement of Cash Flows (Topic 230) - Restricted Cash.* The adoption of ASU 2014-09 resulted in reclassification of expense reimbursements from MTGE Investment Corp. ("MTGE") from an other operating expense offset to management fee income on the consolidated statements of comprehensive income. Net income was not impacted. The adoption of ASU 2016-18 resulted in the presentation of restricted cash with cash and cash equivalents on the consolidated statements of cash flows when reconciling the total beginning and ending amounts. Our prior period results have been revised to conform to the current presentation.

**Note 2. Organization**

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

We 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. So long as we continue to qualify 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 earn income primarily from investing 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 may 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. We fund our investments primarily through borrowings structured as repurchase agreements.

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.

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

***Investment Securities***

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

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

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.

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 acquired after fiscal year 2016. Consequently, all of our securities are reported at fair value on our consolidated balance sheet. Unrealized gains and losses on securities classified as available-for-sale are reported in accumulated other comprehensive income ("OCI"). Unrealized gains and losses on securities for which we elected the fair value option or are classified as trading are reported in net income through other gain (loss) during the period in which they occur. Upon the sale of a security designated as available-for-sale, we determine the cost of the security and the amount of unrealized gains or losses to reclassify out of accumulated OCI into earnings based on the specific identification method.

In our view, the election of the fair value option simplifies the accounting for investment securities and more appropriately reflects the results of our operations for a particular 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 are not permitted to change the designation of securities acquired prior to January 1, 2017; accordingly, such securities will continue to be classified as available-for-sale securities until we receive full repayment of principal or we dispose of the security.

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

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

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

***Interest Income***

Interest income is accrued based on the outstanding principal amount of the investment securities and their contractual terms. Premiums or discounts associated with the purchase of Agency RMBS and non-Agency MBS of high credit quality are amortized or accreted into interest income, respectively, over the projected lives of the securities, including contractual payments and estimated

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prepayments using the effective interest method in accordance with ASC Subtopic 310-20, *Receivables—Nonrefundable Fees and Other Costs*.

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

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 one or three-month LIBOR plus or minus a fixed spread. The fair value of our repurchase agreements is assumed to equal cost as the interest rates are considered to be at market.

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

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

***Derivative Instruments***

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

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.

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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 based on one or three-month LIBOR ("payer swaps") with terms up to 20 years. 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 LIBOR, swap rates and the forward yield curve. Our centrally cleared swaps require that we post an "initial margin" amount determined by the clearing exchange, which is generally intended to be set at a level sufficient to protect the exchange from the interest rate swap's maximum estimated single-day price movement. We also exchange daily settlements of "variation margin" based upon changes in fair value, as measured by the exchange. Pursuant to rules governing central clearing activities, we recognize variation margin settlements as a direct reduction of the carrying value of the interest rate swap asset or liability.

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

*Interest rate swaptions*

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

*TBA securities*

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

We account for TBA contracts as derivative instruments since either the TBA contracts do not settle in the shortest period of time possible or we cannot assert that it is probable at inception and throughout the term of the TBA contract that we will physically settle the contract on the settlement date. We account for TBA dollar roll transactions as a series of derivative transactions. Gains, losses and dollar roll income associated with our TBA contracts are recognized in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income. We estimate the fair value of TBA securities based on similar methods used to value our Agency RMBS securities.

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*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.

***MTGE Management Agreement***

On May 2, 2018, MTGE announced its proposed sale to a third party. Coincident with the announcement, we entered into an amendment to our management agreement with MTGE. Pursuant to the amendment, we continued to manage MTGE through the closing of the proposed sale, which occurred on September 7, 2018, and for a one month transitional period following the closing. In addition to regular monthly management fees payable for ongoing service through the transition period, we were paid a termination fee under the management agreement of approximately $42 million, which is reported in management fee income in our consolidated statements of comprehensive income for the three and nine month periods ended September 30, 2018. Concurrent with the termination of the management agreement, we wrote-off the remaining unamortized intangible asset associated with the management agreement of approximately $23 million, which is reported in other operating expense in our consolidated statements of comprehensive income for the three and nine month periods ended September 30, 2018.

***Loss Contingencies***

We evaluate the existence of any pending or threatened litigation or other potential claims against the Company in accordance with ASC Topic 450, *Contingencies,* which requires that we assess the likelihood and range of potential outcomes of any such matters. We are the defendant in three stockholderderivative lawsuits alleging that certain of our current and former directors and officers breached fiduciary duties and wasted corporate assets relating to past renewals of the management agreement with our former external manager and the internalization of our management, which occurred on July 1, 2016. Although the outcomes of these cases cannot be predicted with certainty, we do not believe that these cases have merit or will result in a material liability, and, as of September 30, 2018, we did not accrue a loss contingency related to these matters.

***Recent Accounting Pronouncements***

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

*ASU 2016-13, Financial Instruments - Credit Losses (Topic 326):* ASU 2016-13 changes the impairment model for most financial assets and certainother instruments. Allowances for credit losses on available-for-sale debt securities will be recognized, rather than direct reductions in the amortized cost of the investments. The new model also requires the estimation of lifetime expected credit losses and corresponding recognition of allowance for losses on trade and other receivables, held-to-maturity debt securities, loans, and other instruments held at amortized cost. The ASU requires certain recurring disclosures and is effective for annual periods, and interim periods within those annual periods, beginning on or after December 15, 2019, with early adoption permitted for annual periods, and interim periods within those annual periods, beginning on or after December 15, 2018. ASU 2016-13 is not expected to have a significant impact on our consolidated financial statements.

**Note 4. Investment Securities**

As of September 30, 2018 and December 31, 2017, our investment portfolio consisted of $72.4 billion and $57.1 billion of investment securities, at fair value, respectively, and $9.4 billion and $15.7 billion of TBA securities, at fair value, respectively. Our TBA position is reported at its net carrying value of $(43) million and $3 million as of September 30, 2018 and December 31, 2017, 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 September 30, 2018 and December 31, 2017, our investment securities had a net unamortized premium balance of $2.8 billion and $2.7 billion, respectively, including interest and principal-only securities.

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The following tables summarize our investment securities as of September 30, 2018 and December 31, 2017, excluding TBA securities, (dollars in millions). Details of our TBA securities as of each of the respective dates are included in Note 6.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  | **September 30, 2018** | | | | | | | | |  |  |  |  |  | **December 31, 2017** | | | | |  |  |  |
| **Investment Securities** | |  |  |  |  |  | **Amortized** | | | |  |  |  |  |  |  | **Fair Value** | |  |  | **Amortized** | | | |  |  | **Fair Value** | | | |  |
|  |  |  |  |  | **Cost** | | |  |  |  |  |  |  |  |  |  | **Cost** | | |  |  |  |  |
| Agency RMBS: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Fixed rate | |  |  |  |  |  | $ |  |  | 72,194 | $ | | |  |  |  | 69,844 | |  |  | $ |  |  | 55,477 | $ | |  |  | 55,026 |  |  |
| Adjustable rate | |  |  |  |  |  |  |  |  | 229 |  |  |  |  |  |  | 230 | |  |  |  |  |  | 278 |  |  |  |  | 283 |  |  |
| CMO | |  |  |  |  |  |  |  |  | 623 |  |  |  |  |  |  | 609 | |  |  |  |  |  | 629 |  |  |  |  | 631 |  |  |
| Interest-only and principal-only strips | |  |  |  |  |  |  |  |  | 181 |  |  |  |  |  |  | 178 | |  |  |  |  |  | 213 |  |  |  |  | 228 |  |  |
| Total Agency RMBS | |  |  |  |  |  |  |  |  | 73,227 |  |  |  |  |  |  | 70,861 | |  |  |  |  |  | 56,597 |  |  |  |  | 56,168 |  |  |
| Non-Agency RMBS | |  |  |  |  |  |  |  |  | 375 |  |  |  |  |  |  | 374 | |  |  |  |  |  | 7 |  |  |  |  | 7 |  |  |
| CMBS | |  |  |  |  |  |  |  |  | 133 |  |  |  |  |  |  | 133 | |  |  |  |  |  | 28 |  |  |  |  | 29 |  |  |
| CRT securities | |  |  |  |  |  |  |  |  | 956 |  |  |  |  |  |  | 997 | |  |  |  |  |  | 834 |  |  |  |  | 876 |  |  |
| Total investment securities | |  |  |  |  |  | $ |  |  | 74,691 | $ | | |  |  |  | 72,365 | |  |  | $ |  |  | 57,466 | $ | |  |  | 57,080 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  | **September 30, 2018** | | | | | | |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  | **Agency RMBS** | | | |  |  |  |  |  |  |  |  | **Non-Agency** | | | | |  | |  |  |  |  |  |  |  |  |
| **Investment Securities** |  |  | **Fannie Mae** |  | **Freddie Mac** | | |  |  | **Ginnie** | | | |  |  |  | **RMBS** |  |  |  | **CMBS** |  |  | **CRT** | | |  |  | **Total** |  |  |
|  |  | **Mae** | | | |  |  |  |  |  |  |  |  |
| Available-for-sale securities: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Par value | | $ | 18,688 |  | $ |  | 5,987 |  | $ |  | 27 | | | $ | | | 7 |  | $ |  | — | | | $ |  | — | $ | | 24,709 |  |  |
| Unamortized discount | |  | (15) |  |  |  | (2) |  |  |  | — | | |  |  |  | — | |  |  | — | | |  |  | — |  |  | (17) |  |  |
| Unamortized premium | |  | 960 |  |  |  | 362 |  |  |  | — | | |  |  |  | — |  |  |  | — |  |  |  |  | — |  |  | 1,322 |  |  |
| Amortized cost | |  | 19,633 |  |  |  | 6,347 |  |  |  | 27 | | |  |  |  | 7 |  |  |  | — | | |  |  | — |  |  | 26,014 |  |  |
| Gross unrealized gains | |  | 3 |  |  |  | 1 |  |  |  | 1 | | |  |  |  | — | |  |  | — | | |  |  | — |  |  | 5 |  |  |
| Gross unrealized losses | |  | (960) |  |  |  | (349) |  |  |  | — | | |  |  |  | — |  |  |  | — |  |  |  |  | — |  |  | (1,309) |  |  |
| Total available-for-sale securities, at fair value | |  | 18,676 |  |  |  | 5,999 |  |  |  | 28 | | |  |  |  | 7 |  |  |  | — | | |  |  | — |  |  | 24,710 |  |  |
| Securities remeasured at fair value through earnings: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Par value | |  | 29,290 |  |  |  | 16,420 |  |  |  | — | | |  |  |  | 378 |  |  |  | 133 |  |  |  | 914 | |  |  | 47,135 |  |  |
| Unamortized discount | |  | (68) |  |  |  | (2) |  |  |  | — | | |  |  |  | (10) |  |  |  | (2) |  |  |  |  | — |  |  | (82) |  |  |
| Unamortized premium | |  | 973 |  |  |  | 607 |  |  |  | — | | |  |  |  | — | |  |  | 2 |  |  |  | 42 | |  |  | 1,624 |  |  |
| Amortized cost | |  | 30,195 |  |  |  | 17,025 |  |  |  | — | | |  |  |  | 368 |  |  |  | 133 |  |  |  | 956 | |  |  | 48,677 |  |  |
| Gross unrealized gains | |  | 5 |  |  |  | 1 |  |  |  | — | | |  |  |  | — | |  |  | — | | |  | 41 | |  |  | 47 |  |  |
| Gross unrealized losses | |  | (665) |  |  |  | (403) |  |  |  | — | | |  |  |  | (1) |  |  |  | — | | |  |  | — |  |  | (1,069) |  |  |
| Total securities remeasured at fair value through earnings | |  | 29,535 |  |  |  | 16,623 |  |  |  | — | | |  |  |  | 367 |  |  |  | 133 |  |  |  | 997 | |  |  | 47,655 |  |  |
| Total securities, at fair value | | $ | 48,211 |  | $ |  | 22,622 |  | $ |  | 28 | | | $ | | | 374 |  | $ |  | 133 |  |  | $ | 997 | | $ | | 72,365 |  |  |
| Weighted average coupon as of September 30, 2018 | |  | 3.77% |  |  |  | 3.84% |  |  |  | 3.24% | | |  |  |  | 3.85% |  |  |  | 4.49% |  |  |  | 5.76% | |  |  | 3.82% |  |  |
| Weighted average yield as of September 30, 2018 1 | |  | 3.16% |  |  |  | 3.23% |  |  |  | 2.04% | | |  |  |  | 4.16% |  |  |  | 4.71% |  |  |  | 5.64% | |  |  | 3.22% |  |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. Incorporates a weighted average future constant prepayment rate assumption of 6.8% based on forward rates as of September 30, 2018.

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  | **December 31, 2017** | | | | | |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  | **Agency RMBS** | | |  |  |  |  |  | **Non-Agency** | | | | |  |  |  |  |  |  |  |
| **Investment Securities** |  |  | **Fannie** | | **Freddie Mac** | |  |  | **Ginnie** |  |  |  | **RMBS** |  |  |  | **CMBS** |  |  | **CRT** |  |  | **Total** |  |
|  | **Mae** |  |  | **Mae** |  |  |  |  |  |  |  |
| Available-for-sale securities: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Par value | | $ | 24,200 |  | $ | 8,219 |  | $ | 34 | $ | | | 7 |  |  | $ | — | | $ | — | | $ | 32,460 |  |
| Unamortized discount | |  | (25) |  |  | (3) |  |  | — |  |  |  | — | | |  | — | |  | — | |  | (28) |  |
| Unamortized premium | |  | 1,119 |  |  | 447 |  |  | — |  |  |  | — |  |  |  | — |  |  | — |  |  | 1,566 |  |
| Amortized cost | |  | 25,294 |  |  | 8,663 |  |  | 34 |  |  |  | 7 |  |  |  | — | |  | — | |  | 33,998 |  |
| Gross unrealized gains | |  | 98 |  |  | 22 |  |  | 1 |  |  |  | — | | |  | — | |  | — | |  | 121 |  |
| Gross unrealized losses | |  | (325) |  |  | (141) |  |  | — |  |  |  | — |  |  |  | — |  |  | — |  |  | (466) |  |
| Total available-for-sale securities, at fair value | |  | 25,067 |  |  | 8,544 |  |  | 35 |  |  |  | 7 |  |  |  | — | |  | — | |  | 33,653 |  |
| Securities remeasured at fair value through earnings: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Par value | |  | 13,558 |  |  | 7,956 |  |  | — |  |  |  | — | | |  | 29 |  |  | 801 |  |  | 22,344 |  |
| Unamortized discount | |  | (34) |  |  | — | |  | — |  |  |  | — | | |  | (1) |  |  | — | |  | (35) |  |
| Unamortized premium | |  | 711 |  |  | 415 |  |  | — |  |  |  | — |  |  |  | — |  |  | 33 |  |  | 1,159 |  |
| Amortized cost | |  | 14,235 |  |  | 8,371 |  |  | — |  |  |  | — | | |  | 28 |  |  | 834 |  |  | 23,468 |  |
| Gross unrealized gains | |  | 26 |  |  | 2 |  |  | — |  |  |  | — | | |  | 1 |  |  | 42 |  |  | 71 |  |
| Gross unrealized losses | |  | (70) |  |  | (42) |  |  | — |  |  |  | — |  |  |  | — |  |  | — |  |  | (112) |  |
| Total securities remeasured at fair value through earnings | |  | 14,191 |  |  | 8,331 |  |  | — |  |  |  | — |  |  |  | 29 |  |  | 876 |  |  | 23,427 |  |
| Total securities, at fair value | | $ | 39,258 |  | $ | 16,875 |  | $ | 35 | $ | | | 7 |  |  | $ | 29 |  | $ | 876 |  | $ | 57,080 |  |
| Weighted average coupon as of December 31, 2017 | |  | 3.67% |  |  | 3.73% |  |  | 2.84% |  |  |  | 2.50% |  |  |  | 6.55% |  |  | 5.26% |  |  | 3.71% |  |
| Weighted average yield as of December 31, 2017 1 | |  | 2.84% |  |  | 2.87% |  |  | 2.02% |  |  |  | 3.08% |  |  |  | 7.30% |  |  | 5.19% |  |  | 2.89% |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. Incorporates a weighted average future constant prepayment rate assumption of 8.4% based on forward rates as of December 31, 2017.

As of September 30, 2018 and December 31, 2017, our investments in CRT and non-Agency securities had the following credit ratings:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **September 30, 2018** | | | |  |  |  |  |  | **December 31, 2017** | | | |  |  |  |
| **CRT and Non-Agency Security Credit Ratings 1** |  |  | **CRT** |  |  | **RMBS** |  |  | **CMBS** |  |  | **CRT** |  |  | **RMBS** |  |  | **CMBS** |  |
| AAA | | $ | — | $ | | 276 |  | $ | 37 |  | $ | — | $ | | 7 |  | $ | — |  |
| AA | |  | — |  |  | 21 |  |  | 61 |  |  | — |  |  | — | |  | — |  |
| A | |  | 17 |  |  | 27 |  |  | — | |  | 1 |  |  | — | |  | — |  |
| BBB | |  | 67 |  |  | 37 |  |  | 30 |  |  | 34 |  |  | — | |  | 29 |  |
| BB | |  | 428 |  |  | 8 |  |  | 5 |  |  | 370 |  |  | — | |  | — |  |
| B | |  | 458 |  |  | 2 |  |  | — | |  | 455 |  |  | — | |  | — |  |
| Not Rated | |  | 27 |  |  | 3 |  |  | — |  |  | 16 |  |  | — |  |  | — |  |
| Total | | $ | 997 | $ | | 374 |  | $ | 133 |  | $ | 876 | $ | | 7 |  | $ | 29 |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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

Our CRT securities reference the performance of loans underlying Agency RMBS issued by Fannie Mae or Freddie Mac, which were subject to their underwriting standards. As of September 30, 2018, our CRT securities had floating and fixed rate coupons ranging from 3.6% to 9.2%, referenced to loans originated between 2011 and 2018 with weighted average coupons ranging from 3.6% to 4.5%. As of December 31, 2017, our CRT securities had floating rate coupons ranging from 3.9% to 8.5%, referenced to loans originated between 2012 and 2017 with weighted average coupons ranging from 3.6% to 4.4%.

The actual maturities of our investment securities are generally shorter than their stated contractual maturities. Actual maturities are affected by the contractual lives of the underlying mortgages, periodic contractual principal payments and principal prepayments. As of September 30, 2018 and December 31, 2017, the weighted average expected constant prepayment rate ("CPR") over the remaining life of our aggregate investment portfolio was 6.8% and 8.4%, 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 September 30, 2018 and December 31, 2017 according to their estimated weighted average life classification (dollars in millions):

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | **September 30, 2018** | | | |  |  |  |  |  |  | **December 31, 2017** | | | |  |  |
| **Estimated Weighted Average Life of** | |  |  |  |  | **Amortized** | | **Weighted** | | **Weighted** | |  |  |  |  | **Amortized** | | **Weighted** | | **Weighted** |  |
|  | **Fair Value** |  |  | **Average** | | **Average** | |  | **Fair Value** |  |  | **Average** | | **Average** |  |
| **Investment Securities** |  |  |  | **Cost** |  | **Coupon** |  | **Yield** |  |  |  | **Cost** |  | **Coupon** |  | **Yield** |  |
| ≥ 1 year and ≤ 3 years | | $ | 1,315 |  | $ | 1,340 |  | 4.34% |  | 2.67% |  | $ | 2,712 |  | $ | 2,693 |  | 3.90% |  | 2.67% |  |
| > 3 years and ≤ 5 years | |  | 4,397 |  |  | 4,529 |  | 3.15% |  | 2.42% |  |  | 7,499 |  |  | 7,518 |  | 3.31% |  | 2.39% |  |
| > 5 years and ≤10 years | |  | 50,933 |  |  | 52,655 |  | 3.92% |  | 3.26% |  |  | 45,977 |  |  | 46,398 |  | 3.75% |  | 2.95% |  |
| > 10 years | |  | 15,720 |  |  | 16,167 |  | 3.63% |  | 3.36% |  |  | 892 |  |  | 857 |  | 4.87% |  | 4.74% |  |
| Total | | $ | 72,365 |  | $ | 74,691 |  | 3.82% |  | 3.22% |  | $ | 57,080 |  | $ | 57,466 |  | 3.71% |  | 2.89% |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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 September 30, 2018 and December 31, 2017 (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  | **Unrealized Loss Position For** | | | | |  |  |  |  |  |  |  |
|  |  |  | **Less than 12 Months** | | | |  |  | **12 Months or More** | | | |  |  |  | **Total** | | |  |  |
| **Securities Classified as Available-for-Sale** |  |  | **Fair** | |  | **Unrealized** | |  | **Fair Value** |  |  | **Unrealized** | |  | **Fair** |  |  |  | **Unrealized** |  |
|  | **Value** |  |  | **Loss** |  |  |  | **Loss** |  |  | **Value** |  |  |  | **Loss** |  |
| September 30, 2018 | | $ | 7,641 |  | $ | (219) |  | $ | 16,855 |  | $ | (1,090) |  | $ | 24,496 | $ | | | (1,309) |  |
| December 31, 2017 | | $ | 3,582 |  | $ | (15) |  | $ | 20,577 |  | $ | (451) |  | $ | 24,159 | $ | | | (466) |  |

We did not recognize OTTI charges on our investment securities during the periods presented on our consolidated statements of operations. As of the end of each respective reporting period, a decision had not been made to sell securities in an unrealized loss position and we did not believe it was more likely than not that we would be required to sell such securities before recovery of their amortized cost basis. The unrealized losses on our securities were not due to credit losses given the GSE or U.S. Government agency guarantees, but rather were due to changes in interest rates and prepayment expectations. However, as we continue to actively manage our portfolio, we may recognize additional realized losses on our investment securities upon selecting specific securities to sell.

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

The following table is a summary of our net gain (loss) from the sale of investment securities for the three and nine months ended September 30, 2018 and 2017 by investment classification of accounting (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | **Three Months Ended September 30,** | | | | |  |  |  |  |
|  |  |  |  |  | **2018** |  |  |  |  |  |  | **2017** |  |  |
|  |  |  | **Available-for-Sale** | **Fair Value Option** | |  |  |  | **Available-for-Sale** | | **Fair Value Option** | |  |  |
| **Investment Securities** |  |  | **Securities 2** |  | **Securities** |  | **Total** |  |  | **Securities 2** |  | **Securities** |  | **Total** |
| Investment securities sold, at cost | | $ | (1,965) | $ | (1,039) | $ | (3,004) |  | $ | (3) | $ | (6,016) | $ | (6,019) |
| Proceeds from investment securities sold 1 | |  | 1,929 |  | 1,035 |  | 2,964 |  |  | 2 |  | 6,039 |  | 6,041 |
| Net gain (loss) on sale of investment securities | | $ | (36) | $ | (4) | $ | (40) |  | $ | (1) | $ | 23 | $ | 22 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gross gain on sale of investment securities | | $ | 1 | $ | 2 | $ | 3 |  | $ | — | $ | 28 | $ | 28 |
| Gross loss on sale of investment securities | |  | (37) |  | (6) |  | (43) |  |  | (1) |  | (5) |  | (6) |
| Net gain (loss) on sale of investment securities | | $ | (36) | $ | (4) | $ | (40) |  | $ | (1) | $ | 23 | $ | 22 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | **Nine Months Ended September 30,** | | | | |  |  |  |  |  |
|  |  |  |  |  | **2018** |  |  |  |  |  |  | **2017** |  |  |  |
|  |  |  | **Available-for-Sale** | **Fair Value Option** | |  |  |  | **Available-for-Sale** | | **Fair Value Option** | |  |  |  |
| **Investment Securities** |  |  | **Securities 2** |  | **Securities** |  | **Total** |  |  | **Securities 2** |  | **Securities** |  | **Total** |  |
| Investment securities sold, at cost | | $ | (3,801) | $ | (4,017) | $ | (7,818) |  | $ | (5,738) | $ | (8,636) | $ | (14,374) |  |
| Proceeds from investment securities sold 1 | |  | 3,746 |  | 3,956 |  | 7,702 |  |  | 5,649 |  | 8,678 |  | 14,327 |  |
| Net gain (loss) on sale of investment securities | | $ | (55) | $ | (61) | $ | (116) |  | $ | (89) | $ | 42 | $ | (47) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gross gain on sale of investment securities | | $ | 6 | $ | 12 | $ | 18 |  | $ | 6 | $ | 48 | $ | 54 |  |
| Gross loss on sale of investment securities | |  | (61) |  | (73) |  | (134) |  |  | (95) |  | (6) |  | (101) |  |
| Net gain (loss) on sale of investment securities | | $ | (55) | $ | (61) | $ | (116) |  | $ | (89) | $ | 42 | $ | (47) |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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

***Consolidated Variable Interest Entities***

As of September 30, 2018 and December 31, 2017, our consolidated financial statements reflect the consolidation of certain variable interest entities ("VIEs") for which we have determined we are the primary beneficiary. The consolidated VIEs consist of CMO trusts backed by fixed or adjustable-rate Agency RMBS. Fannie Mae or Freddie Mac guarantees the payment of interest and principal and acts as the trustee and administrator of their respective securitization trusts. Accordingly, we are not required to provide the beneficial interest holders of the CMO securities any financial or other support. Our maximum exposure to loss related to our involvement with the CMO trusts is the fair value of the CMO securities and interest and principal-only securities held by us, less principal amounts guaranteed by Fannie Mae and Freddie Mac.

**Note 5. Repurchase Agreements and Other Secured Borrowings**

We pledge our securities as collateral under our borrowing agreements with financial institutions. Interest rates on our borrowings are generally based on LIBOR plus or minus a margin and 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 September 30, 2018, we had met all margin call requirements. For additional information regarding our pledged assets, please refer to Note 7.

***Repurchase Agreements***

As of September 30, 2018 and December 31, 2017, we had $65.7 billion and $50.3 billion, respectively, of repurchase agreements outstanding. 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 September 30, 2018 and December 31, 2017 (dollars in millions):

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **September 30, 2018** | |  |  |  |  |  | **December 31, 2017** | |  |  |
|  |  |  |  |  | **Weighted** | | **Weighted** | |  |  |  | **Weighted** | | **Weighted** |  |
|  |  |  | **Repurchase** | | **Average** | |  | **Repurchase** | | **Average** | |  |
| **Remaining Maturity** |  |  | **Interest** | | **Average Days** | |  | **Interest** | | **Average Days** |  |
|  | **Agreements** |  | **Rate** |  | **to Maturity** |  |  | **Agreements** |  | **Rate** |  | **to Maturity** |  |
| Agency repo: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| ≤ 1 month | | $ | 35,815 |  | 2.29% |  | 9 |  | $ | 19,771 |  | 1.59% |  | 11 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| > 1 to ≤ 3 months | |  | 16,273 |  | 2.30% |  | 56 |  |  | 16,150 |  | 1.50% |  | 50 |  |
| > 3 to ≤ 6 months | |  | 9,472 |  | 2.15% |  | 110 |  |  | 7,287 |  | 1.50% |  | 130 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| > 6 to ≤ 9 months | |  | 400 |  | 2.78% |  | 254 |  |  | 2,361 |  | 1.66% |  | 225 |  |
| > 9 to ≤ 12 months | |  | 700 |  | 2.53% |  | 279 |  |  | 202 |  | 1.64% |  | 297 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| > 12 to ≤ 24 months | |  | 2,099 |  | 2.78% |  | 486 |  |  | 1,700 |  | 1.84% |  | 468 |  |
| > 24 to ≤ 36 months | |  | 925 |  | 2.79% |  | 829 |  |  | 2,200 |  | 1.80% |  | 803 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| > 36 to ≤ 48 months | |  | — | | —% | | — | |  | 625 |  | 1.90% |  | 1,141 |  |
| Total Agency repo | | $ | 65,684 |  | 2.30% |  | 67 |  | $ | 50,296 |  | 1.57% |  | 116 |  |
| U.S.Treasury repo: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| > 1 day to ≤ 1 months | |  | 50 |  | 2.32% |  | 1 |  |  | — | | —% | | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total | | $ | 65,734 |  | 2.30% |  | 67 |  | $ | 50,296 |  | 1.57% |  | 116 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

As of September 30, 2018 and December 31, 2017, $14.0 billion and $5.3 billion, respectively, of our Agency repurchase agreements matured overnight and none of our repurchase agreements were due on demand. As of September 30, 2018 and December 31, 2017, 39% and 33%, 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 Agency repo funding from the General Collateral Finance Repo service ("GCF Repo") offered by the Fixed Income Clearing Corporation ("FICC"), which totaled 36% and 30% of our repurchase agreement funding outstanding as of September 30, 2018 and December 31, 2017, respectively. Additionally, as of September 30, 2018 and December 31, 2017, we had $3.9 billion and $2.7 billion, respectively, of U.S. Treasury reverse repurchase agreements sourced through BES with the FICC, which are reported in receivable under reverse repurchase agreements on our consolidated balance sheets.

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

We hedge a portion of our interest rate risk by entering into interest rate swaps, interest rate swaptions and U.S. Treasury securities and U.S. Treasury futures contracts, primarily through short sales. We may also utilize TBA securities, options and other types of derivative instruments to hedge a portion of our risk. For additional information regarding our derivative instruments and our overall risk management strategy, please refer to the discussion of derivative and other hedging instruments in Note 3.

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***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 September 30, 2018 and

December 31, 2017 (in millions):

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Derivative and Other Hedging Instruments** |  | **Balance Sheet Location** |  |  | **September 30,** | | **December 31, 2017** | |  |
|  | **2018** |  |  |
| Interest rate swaps | | Derivative assets, at fair value | | $ | 217 |  | $ | 81 |  |
|  |  |  |  |  |  |  |  |  |  |
| Swaptions | | Derivative assets, at fair value | |  | 157 |  |  | 75 |  |
| TBA securities | | Derivative assets, at fair value | |  | 18 |  |  | 30 |  |
|  |  |  |  |  |  |  |  |  |  |
| U.S. Treasury futures - short | | Derivative assets, at fair value | |  | 20 |  |  | 19 |  |
| Total derivative assets, at fair value | |  |  | $ | 412 |  | $ | 205 |  |
|  |  |  |  |  |  |  |  |  |  |
| Interest rate swaps | | Derivative liabilities, at fair value | | $ | (1) |  | $ | (1) |  |
|  |  |  |  |  |  |  |  |  |  |
| TBA securities | | Derivative liabilities, at fair value | |  | (61) |  |  | (27) |  |
| Total derivative liabilities, at fair value | |  |  | $ | (62) |  | $ | (28) |  |
|  |  |  |  |  |  |  |  |  |  |
| U.S. Treasury securities - long | | U.S. Treasury securities, at fair value | | $ | 109 |  | $ | — |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  | Obligation to return securities borrowed under reverse | |  |  |  |  |  |  |
| U.S. Treasury securities - short | | repurchase agreements, at fair value | |  | (15,549) |  |  | (10,467) |  |
| Total U.S. Treasury securities, net at fair value | |  |  | $ | (15,440) |  | $ | (10,467) |  |
|  |  |  |  |  |  |  |  |  |  |

The following tables summarize certain characteristics of our derivative and other hedging instruments outstanding as of September 30, 2018 and

December 31, 2017 (dollars in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **September 30, 2018** | | | |  |  |  |  |  | **December 31, 2017** | | | |  |  |
|  |  |  | **Notional** | | **Average** | | **Average** | | **Average** | |  | **Notional** | | **Average** | | **Average** | | **Average** |  |
| **Interest Rate Swaps** |  |  | **Fixed Pay** | | **Receive** | | **Maturity** | |  | **Fixed Pay** | | **Receive** | | **Maturity** |  |
|  | **Amount 1** |  | **Rate 2** |  | **Rate** |  | **(Years)** |  |  | **Amount 1** |  | **Rate 2** |  | **Rate** |  | **(Years)** |  |
| ≤ 3 years | | $ | 19,250 |  | 1.59% |  | 2.33% |  | 1.2 |  | $ | 21,025 |  | 1.40% |  | 1.46% |  | 1.5 |  |
| > 3 to ≤ 5 years | |  | 9,975 |  | 1.96% |  | 2.33% |  | 3.9 |  |  | 6,825 |  | 1.82% |  | 1.43% |  | 4.1 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| > 5 to ≤ 7 years | |  | 5,025 |  | 2.54% |  | 2.34% |  | 6.1 |  |  | 5,775 |  | 2.02% |  | 1.44% |  | 5.9 |  |
| > 7 to ≤ 10 years | |  | 10,000 |  | 2.33% |  | 2.33% |  | 8.5 |  |  | 6,650 |  | 2.10% |  | 1.42% |  | 9.1 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| > 10 years | |  | 4,425 |  | 2.59% |  | 2.34% |  | 11.8 |  |  | 3,425 |  | 2.49% |  | 1.45% |  | 12.9 |  |
| Total | | $ | 48,675 |  | 2.01% |  | 2.33% |  | 4.7 |  | $ | 43,700 |  | 1.74% |  | 1.44% |  | 4.5 |  |



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1. As of September 30, 2018 and December 31, 2017, notional amount includes forward starting swaps of $4.9 billion and $4.6 billion, respectively, with an average forward start date of 0.5 and 0.3 years, respectively.
2. Average fixed pay rate includes forward starting swaps. Excluding forward starting swaps, the average fixed pay rate was 1.89% and 1.68% as of September 30, 2018 and December 31, 2017, respectively.

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Swaptions** |  |  |  |  |  | **Option** | |  |  |  |  |  | **Underlying Payer Swap** | | | |  |  |
|  |  |  |  |  |  |  |  | **Average** | |  |  |  |  |  | **Average** | |  |  |
|  |  |  |  |  |  |  |  | **Months to** | |  |  |  | **Average Fixed** | | **Average** |  |
|  |  |  |  |  |  |  |  | **Current Option** | |  | **Notional** | | **Receive** | |  |
| **Current Option Expiration Date** |  |  | **Cost Basis** |  |  | **Fair Value** |  | **Expiration** | |  | **Pay** | | **Rate** | | **Term** |  |
|  |  | **Date 1** |  |  | **Amount** |  | **Rate** |  | **(LIBOR)** |  | **(Years)** |  |
| **September 30, 2018** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| ≤ 1 year | | $ | 99 |  | $ | 127 |  | 4 |  | $ | 4,950 |  | 2.83% |  | 3M | | 7.5 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| > 1 year ≤ 2 years | |  | 23 |  |  | 30 |  | 20 |  |  | 650 |  | 2.80% |  | 3M | | 10.0 |  |
| Total | | $ | 122 |  | $ | 157 |  | 6 |  | $ | 5,600 |  | 2.83% |  | 3M |  | 7.8 |  |
| **December 31, 2017** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| ≤ 1 year | | $ | 118 |  | $ | 46 |  | 7 |  | $ | 5,100 |  | 2.71% |  | 3M | | 8.8 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| > 1 year ≤ 2 years | |  | 23 |  |  | 16 |  | 18 |  |  | 1,050 |  | 2.71% |  | 3M | | 8.7 |  |
| > 2 year ≤ 3 years | |  | 18 |  |  | 13 |  | 30 |  |  | 500 |  | 2.78% |  | 3M | | 10.0 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total | | $ | 159 |  | $ | 75 |  | 10 |  | $ | 6,650 |  | 2.72% |  | 3M | | 8.9 |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. As of September 30, 2018 and December 31, 2017, ≤ 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** |  |  |  |  | **September 30, 2018** | | |  |  |  |  |  |  | **December 31, 2017** | | |  |  |  |
| **Maturity** |  |  | **Face Amount** | |  | **Cost Basis 1** |  |  | **Fair Value** |  |  | **Face Amount** | |  | **Cost Basis 1** |  |  | **Fair Value** |  |
|  | **(Short)** |  |  |  |  | **(Short)** |  |  |  |  |
| 5 years | | $ | (230) |  | $ | (229) |  | $ | (228) |  | $ | (288) |  | $ | (286) |  | $ | (283) |  |
| 7 years | |  | (10,319) |  |  | (10,274) |  |  | (9,989) |  |  | (6,131) |  |  | (6,106) |  |  | (6,029) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 10 years | |  | (5,554) |  |  | (5,492) |  |  | (5,223) |  |  | (4,280) |  |  | (4,230) |  |  | (4,155) |  |
| Total U.S. Treasury securities | | $ | (16,103) |  | $ | (15,995) |  | $ | (15,440) |  | $ | (10,699) |  | $ | (10,622) |  | $ | (10,467) |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. As of September 30, 2018 and December 31, 2017, U.S. Treasury securities had a weighted average yield of 2.43% and 2.12%, respectively.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **U.S. Treasury Futures** | |  |  |  |  | **September 30, 2018** | | | | |  |  |  |  |  |  |  | **December 31, 2017** | | | | |  |  |  |
|  |  |  | **Notional** | |  |  |  |  |  |  |  |  |  |  | **Notional** | |  |  |  |  |  |  |  |  |  |
|  |  |  | **Amount - Long** | |  | **Cost** | |  | **Fair** | |  | **Net Carrying** | |  | **Amount - Long** | |  | **Cost** | |  | **Fair** | | **Net Carrying** | |  |
| **Maturity** |  |  | **(Short)** |  |  | **Basis** |  |  | **Value** |  |  | **Value 1** |  |  | **(Short)** |  |  | **Basis** |  |  | **Value** |  |  | **Value 1** |  |
| 5 years | | $ | — | | $ | — | | $ | — | | $ | — | | $ | (730) |  | $ | (852) |  | $ | (848) |  | $ | 4 |  |
| 10 years | |  | (1,650) |  |  | (1,980) |  |  | (1,960) |  |  | 20 |  |  | (2,180) |  |  | (2,718) |  |  | (2,703) |  |  | 15 |  |
| Total U.S. Treasury futures | | $ | (1,650) |  | $ | (1,980) |  | $ | (1,960) |  | $ | 20 |  | $ | (2,910) |  | $ | (3,570) |  | $ | (3,551) |  | $ | 19 |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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.

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | **September 30, 2018** | | | | |  |  |  |  |  |  |  | **December 31, 2017** | | | | |  |  |  |
|  |  |  | **Notional** | |  |  |  |  |  |  |  |  |  |  | **Notional** | |  |  |  |  |  |  |  |  |  |
|  |  |  | **Amount - Long** | |  | **Cost** | |  | **Fair** | | **Net Carrying** | | |  | **Amount - Long** | |  | **Cost** | |  | **Fair** | |  | **Net Carrying** |  |
| **TBA Securities by Coupon** |  |  | **(Short)** |  |  | **Basis** |  |  | **Value** |  |  | **Value 1** |  |  | **(Short)** |  |  | **Basis** |  |  | **Value** |  |  | **Value 1** |  |
| 15-Year TBA securities: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2.5% |  | $ | 194 |  | $ | 190 |  | $ | 188 |  | $ | (2) |  | $ | 1,373 |  | $ | 1,372 |  | $ | 1,370 |  | $ | (2) |  |
| 3.0% |  |  | 567 |  |  | 565 |  |  | 560 |  |  | (5) |  |  | 3,161 |  |  | 3,225 |  |  | 3,217 |  |  | (8) |  |
| 3.5% |  |  | 2,646 |  |  | 2,669 |  |  | 2,658 |  |  | (11) |  |  | 414 |  |  | 428 |  |  | 428 |  |  | — |  |
| 4.0% |  |  | 1,224 |  |  | 1,250 |  |  | 1,248 |  |  | (2) |  |  | — | |  | — | |  | — | |  | — |  |
| Total 15-Year TBA securities | |  | 4,631 |  |  | 4,674 |  |  | 4,654 |  |  | (20) |  |  | 4,948 |  |  | 5,025 |  |  | 5,015 |  |  | (10) |  |
| 30-Year TBA securities: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 3.0% |  |  | 843 |  |  | 812 |  |  | 805 |  |  | (7) |  |  | 4,317 |  |  | 4,303 |  |  | 4,312 |  |  | 9 |  |
| 3.5% |  |  | (1,699) |  |  | (1,683) |  |  | (1,671) |  |  | 12 |  |  | 3,932 |  |  | 4,027 |  |  | 4,034 |  |  | 7 |  |
| 4.0% |  |  | 3,024 |  |  | 3,071 |  |  | 3,052 |  |  | (19) |  |  | 2,338 |  |  | 2,449 |  |  | 2,446 |  |  | (3) |  |
| 4.5% |  |  | 2,475 |  |  | 2,562 |  |  | 2,553 |  |  | (9) |  |  | (61) |  |  | (65) |  |  | (65) |  |  | — |  |
| Total 30-Year TBA securities, net | |  | 4,643 |  |  | 4,762 |  |  | 4,739 |  |  | (23) |  |  | 10,526 |  |  | 10,714 |  |  | 10,727 |  |  | 13 |  |
| Total TBA securities, net | | $ | 9,274 |  | $ | 9,436 |  | $ | 9,393 |  | $ | (43) |  | $ | 15,474 |  | $ | 15,739 |  | $ | 15,742 |  | $ | 3 |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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

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

The following table summarizes changes in our derivative and other hedge portfolio and their effect on our consolidated statements of comprehensive income for the three and nine months ended September 30, 2018 and 2017 (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **Settlement,** | |  |  |  |  |  | **Gain/(Loss)** |  |
|  |  |  |  |  |  |  |  |  |  |  |  | **on Derivative** |  |
|  |  |  | **Beginning** | |  |  | **Termination,** | |  | **Ending** | | |  | **Instruments and** |  |
| **Derivative and Other Hedging Instruments** |  |  | **Additions** |  | **Expiration or** | |  | **Other Securities, Net** | |  |
| **Notional Amount** | |  | **Exercise** |  | **Notional Amount** | |  | |  | **1** |  |
| **Three months ended September 30, 2018:** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| TBA securities, net | | $ | 19,805 |  | 55,702 |  | (66,233) |  | $ | 9,274 |  |  | $ | (56) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest rate swaps | | $ | 47,875 |  | 2,150 |  | (1,350) |  | $ | 48,675 |  |  |  | 282 |  |
| Payer swaptions | | $ | 5,600 |  | — | | — | | $ | 5,600 |  |  |  | 30 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| U.S. Treasury securities - short position | | $ | (13,394) |  | (4,402) |  | 1,583 |  | $ | (16,213) |  |  |  | 150 |  |
| U.S. Treasury securities - long position | | $ | — | | 792 |  | (682) |  | $ | 110 |  |  |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| U.S. Treasury futures contracts - short position | | $ | (1,650) |  | (1,650) |  | 1,650 |  | $ | (1,650) |  |  |  | 21 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  | $ | 427 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Three months ended September 30, 2017:** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| TBA securities, net | | $ | 16,867 |  | 92,803 |  | (90,792) |  | $ | 18,878 |  |  | $ | 158 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest rate swaps | | $ | 40,000 |  | 3,550 |  | (1,400) |  | $ | 42,150 |  |  |  | 15 |  |
| Payer swaptions | | $ | 4,950 |  | — | | — | | $ | 4,950 |  |  |  | (22) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| U.S. Treasury securities - short position | | $ | (7,358) |  | (5,105) |  | 3,209 |  | $ | (9,254) |  |  |  | (19) |  |
| U.S. Treasury securities - long position | | $ | — | | 1 |  | (1) |  | $ | — | |  |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| U.S. Treasury futures contracts - short position | | $ | (2,910) |  | (2,910) |  | 2,910 |  | $ | (2,910) |  |  |  | (1) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  | $ | 131 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **Settlement,** | |  |  |  |  |  | **Gain/(Loss)** |  |
|  |  |  |  |  |  |  |  |  |  |  |  | **on Derivative** |  |
|  |  |  | **Beginning** | |  |  | **Termination,** | |  | **Ending** | | |  | **Instruments and** |  |
| **Derivative and Other Hedging Instruments** |  |  | **Additions** |  | **Expiration or** | |  | **Other Securities, Net** | |  |
| **Notional Amount** | |  | **Exercise** |  | **Notional Amount** | |  | |  | **1** |  |
| **Nine months ended September 30, 2018:** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| TBA securities, net | | $ | 15,474 |  | 163,777 |  | (169,977) |  | $ | 9,274 |  |  | $ | (362) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest rate swaps | | $ | 43,700 |  | 9,800 |  | (4,825) |  | $ | 48,675 |  |  |  | 1,161 |  |
| Payer swaptions | | $ | 6,650 |  | 1,100 |  | (2,150) |  | $ | 5,600 |  |  |  | 155 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| U.S. Treasury securities - short position | | $ | (10,699) |  | (10,693) |  | 5,179 |  | $ | (16,213) |  |  |  | 397 |  |
| U.S. Treasury securities - long position | | $ | — | | 1,841 |  | (1,731) |  | $ | 110 |  |  |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| U.S. Treasury futures contracts - short position | | $ | (2,910) |  | (6,209) |  | 7,469 |  | $ | (1,650) |  |  |  | 104 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  | $ | 1,455 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Nine months ended September 30, 2017:** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| TBA securities, net | | $ | 10,916 |  | 185,205 |  | (177,243) |  | $ | 18,878 |  |  | $ | 360 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest rate swaps | | $ | 37,175 |  | 10,575 |  | (5,600) |  | $ | 42,150 |  |  |  | (157) |  |
| Payer swaptions | | $ | 1,200 |  | 3,750 |  | — | | $ | 4,950 |  |  |  | (46) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| U.S. Treasury securities - short position | | $ | (8,061) |  | (11,595) |  | 10,402 |  | $ | (9,254) |  |  |  | (207) |  |
| U.S. Treasury securities - long position | | $ | 189 |  | 304 |  | (493) |  | $ | — | |  |  | 1 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| U.S. Treasury futures contracts - short position | | $ | (1,810) |  | (8,430) |  | 7,330 |  | $ | (2,910) |  |  |  | (29) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  | $ | (78) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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

**Note 7. Pledged Assets**

Our funding agreements require us to fully collateralize our obligations under the agreements based upon our counterparties' collateral requirements and their determination of the fair value of the securities pledged as collateral, which fluctuates with changes in interest rates, credit quality and liquidity conditions within the investment banking, mortgage finance and real estate industries. Our derivative contracts similarly require us to fully collateralize our obligations under such agreements, which will vary over time based on similar factors as well as our counterparties' determination of the value of the derivative contract. We are typically required to post initial margin upon execution of derivative transactions, such as under our interest rate swap agreements and TBA contracts, and subsequently post or receive variation margin based on daily fluctuations in fair value. Our prime brokerage agreements, pursuant to which we receive custody and settlement services, 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 provided for 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 September 30, 2018, our maximum amount at risk with any counterparty other than the Fixed Income Clearing Corporation related to our repurchase agreements was less than 4% of our tangible stockholders' equity. As of September 30, 2018, approximately 8% of our tangible stockholder's equity was at risk with the Fixed Income Clearing Corporation. Equity at risk is defined as the net carrying value of securities pledged under repurchase agreements, including accrued interest plus any cash or assets on deposit to secure the repurchase obligation, less the amount of the repurchase liability, including accrued interest.

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Our International Swaps and Derivatives Association ("ISDA") Master Agreements contain a cross default provision under which a default under the terms of certain of our other indebtedness in excess of certain thresholds causes an event of default under the ISDA Master Agreement. Threshold amounts vary by lender. Following an event of default, we could be required to settle our obligations under the agreements. Additionally, under certain of our ISDA Master Agreements, we could be required to settle our obligations under the agreements if we fail to maintain certain minimum stockholders' equity thresholds or our REIT status or if we fail to comply with limits on our leverage up to certain specified levels. As of September 30, 2018, the fair value of additional collateral that could be required to be posted as a result of the credit-risk-related contingent features being triggered was not material to our financial statements.

***Assets Pledged to Counterparties***

The following tables summarize our assets pledged as collateral under our funding, derivative and prime broker agreements by type, including securities pledged related to securities sold but not yet settled, as of September 30, 2018 and December 31, 2017 (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | **September 30, 2018** | | | | |  |  |  |  |  |  |
| **Assets Pledged to Counterparties** |  | **Repurchase Agreements** | | | **Debt of Consolidated** | | |  | **Derivative** | |  | **Prime Broker** | |  | **Total** |  |
|  | **1** |  |  | **VIEs** |  |  | **Agreements** |  |  | **Agreements 2** |  |  |  |
| Agency RMBS - fair value | | $ | 68,065 |  | $ | 453 |  | $ | 184 |  | $ | 246 |  | $ | 68,948 |  |
| CRT - fair value | |  | 44 |  |  | — | |  | — | |  | — | |  | 44 |  |
| U.S. Treasury securities - fair value 3 | |  | 470 |  |  | — | |  | 58 |  |  | — | |  | 528 |  |
| Accrued interest on pledged securities | |  | 212 |  |  | 1 |  |  | 1 |  |  | 1 |  |  | 215 |  |
| Restricted cash and cash equivalents | |  | 78 |  |  | — | |  | 378 |  |  | — | |  | 456 |  |
| Total | | $ | 68,869 |  | $ | 454 |  | $ | 621 |  | $ | 247 |  | $ | 70,191 |  |
|  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |
|  |  |  |  |  |  | **December 31, 2017** | | | | |  |  |  |  |  |  |
| **Assets Pledged to Counterparties** |  | **Repurchase Agreements** | | | **Debt of Consolidated** | | |  | **Derivative** | |  | **Prime Broker** | |  | **Total** |  |
|  | **1** |  |  | **VIEs** |  |  | **Agreements** |  |  | **Agreements 2** |  |  |  |
| Agency RMBS - fair value | | $ | 52,497 |  | $ | 662 |  | $ | 221 |  | $ | 519 |  | $ | 53,899 |  |
| U.S. Treasury securities - fair value 3 | |  | 113 |  |  | — | |  | 72 |  |  | — | |  | 185 |  |
| Accrued interest on pledged securities | |  | 153 |  |  | 2 |  |  | 1 |  |  | 2 |  |  | 158 |  |
| Restricted cash and cash equivalents | |  | 35 |  |  | — | |  | 281 |  |  | 1 |  |  | 317 |  |
| Total | | $ | 52,798 |  | $ | 664 |  | $ | 575 |  | $ | 522 |  | $ | 54,559 |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. Includes $163 million and $182 million of retained interests in our consolidated VIEs pledged as collateral under repurchase agreements as of September 30, 2018 and December 31, 2017, respectively.
2. Includes margin for TBAs cleared through prime brokers and other clearing deposits.
3. Includes repledged securities received as collateral from counterparties.

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

The following table summarizes our securities pledged as collateral under our repurchase agreements by the remaining maturity of our borrowings, including securities pledged related to sold but not yet settled securities, as of September 30, 2018 and December 31, 2017 (in millions). For the corresponding borrowings associated with the following amounts and the interest rates thereon, refer to Note 5*.*

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **September 30, 2018** | | | | |  |  |  |  |  | **December 31, 2017** | | | | |  |  |  |
|  |  |  |  |  |  |  | **Amortized** | |  | **Accrued** | |  |  |  |  |  | **Amortized** | |  | **Accrued** |  |
| **Securities Pledged by Remaining Maturity of Repurchase** | |  | **Fair Value of** |  |  |  |  | **Interest on** | |  | **Fair Value of** |  |  |  |  | **Interest on** |  |
|  |  |  |  | **Cost of Pledged** | |  | **Pledged** | |  |  |  | **Cost of Pledged** | | |  | **Pledged** |  |
| **Agreements** |  | **Pledged Securities** | |  |  |  | **Securities** |  |  | **Securities** |  | **Pledged Securities** | |  |  |  | **Securities** |  |  | **Securities** |  |
| RMBS:1,2 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| ≤ 30 days | | $ | 36,636 | $ | | | 37,892 |  | $ | 114 |  | $ | 20,162 | $ | | | 20,313 |  | $ | 59 |  |
| > 30 and ≤ 60 days | |  | 9,512 |  |  |  | 9,728 |  |  | 29 |  |  | 12,950 |  |  |  | 13,061 |  |  | 38 |  |
| > 60 and ≤ 90 days | |  | 7,774 |  |  |  | 8,017 |  |  | 25 |  |  | 4,000 |  |  |  | 4,013 |  |  | 11 |  |
| > 90 days | |  | 14,187 |  |  |  | 14,742 |  |  | 44 |  |  | 15,385 |  |  |  | 15,512 |  |  | 45 |  |
| Total RMBS | | $ | 68,109 | $ | | | 70,379 |  | $ | 212 |  | $ | 52,497 | $ | | | 52,899 |  | $ | 153 |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. Includes $163 million and $182 million of retained interests in our consolidated VIEs pledged as collateral under repurchase agreements as of September 30, 2018 and December 31, 2017, respectively.
2. September 30, 2018 amounts exclude $426 million of repledged U.S. Treasury securities received as collateral from counterparties.

***Assets Pledged from Counterparties***

As of September 30, 2018 and December 31, 2017, we had assets pledged to us from counterparties as collateral under our reverse repurchase and derivative agreements summarized in the tables below (in millions).

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **September 30, 2018** | | |  |  |  |  |  |  | **December 31, 2017** | | |  |  |  |
|  |  |  | **Reverse** | |  | **Derivative** | |  |  |  |  | **Reverse** | |  | **Derivative** | |  |  |  |
| **Assets Pledged to AGNC** |  |  | **Repurchase** | |  |  | **Total** |  |  | **Repurchase** | |  |  | **Total** |  |
|  | **Agreements** |  |  | **Agreements** |  |  |  | **Agreements** |  |  | **Agreements** | |  |  |
| U.S. Treasury securities - fair value | | $ | 16,165 |  | $ | 80 |  | $ | 16,245 |  | $ | 10,853 |  | $ | — | | $ | 10,853 |  |
| Cash | |  | — | |  | 282 |  |  | 282 |  |  | — | |  | 82 |  |  | 82 |  |
| Total | | $ | 16,165 |  | $ | 362 |  | $ | 16,527 |  | $ | 10,853 |  | $ | 82 |  | $ | 10,935 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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

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

***Offsetting Assets and Liabilities***

Certain of our repurchase agreements and derivative transactions are governed by underlying agreements that generally provide for a right of setoff under master netting arrangements (or similar agreements), including in the event of default or in the event of bankruptcy of either party to the transactions. We present our assets and liabilities subject to such arrangements on a gross basis in our consolidated balance sheets. The following tables present information about our assets and liabilities that are subject to master netting arrangements and can potentially be offset on our consolidated balance sheets as of September 30, 2018 and December 31, 2017 (in millions):

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  | **Offsetting of Financial and Derivative Assets** | | | | | | | | | | |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Net Amounts of** | | |  | **Gross Amounts Not Offset** | | | | |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **in the** | | |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  | **Gross Amounts** |  |  |  |  | **Assets Presented** | | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Consolidated Balance Sheets** | | | |  |  |  |  |
|  |  |  |  | **Gross Amounts** | | |  |  |  | **Offset in the** |  |  |  |  |  | **in the** | |  |  |  |  |
|  |  |  |  |  | **of Recognized** | |  |  |  | **Consolidated** |  |  |  |  |  | **Consolidated** | |  | **Financial** | |  | **Collateral** | |  | **Net Amount** |  |
|  |  |  |  |  | **Assets** | |  |  |  | **Balance Sheets** |  |  |  |  |  | **Balance Sheets** | |  | **Instruments** | |  | **Received 2** | |  |  |
| **September 30, 2018** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest rate swap and swaption agreements, at fair value 1 | | $ | | | 374 |  |  |  | $ | — | $ | | | | | 374 |  | $ | (1) |  | $ | (334) |  | $ | 39 |  |
| TBA securities, at fair value | |  |  |  | 18 |  |  |  |  | — |  |  |  |  |  | 18 |  |  | (18) |  |  | — | |  | — |  |
| Receivable under reverse repurchase agreements | |  |  |  | 16,309 |  |  |  |  | — |  |  |  |  |  | 16,309 |  |  | (13,269) |  |  | (3,036) |  |  | 4 |  |
| Total | | $ | | | 16,701 |  |  |  | $ | — | $ | | | | | 16,701 |  | $ | (13,288) |  | $ | (3,370) |  | $ | 43 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **December 31, 2017** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest rate swap and swaption agreements, at fair value 1 | | $ | | | 156 |  |  |  | $ | — | $ | | | | | 156 |  | $ | (1) |  | $ | (82) |  | $ | 73 |  |
| TBA securities, at fair value | |  |  |  | 30 |  |  |  |  | — |  |  |  |  |  | 30 |  |  | (22) |  |  | — | |  | 8 |  |
| Receivable under reverse repurchase agreements | |  |  |  | 10,961 |  |  |  |  | — |  |  |  |  |  | 10,961 |  |  | (9,682) |  |  | (1,279) |  |  | — |  |
| Total | |  | | $ | 11,147 |  |  |  | $ | — |  |  | | $ | | 11,147 |  | $ | (9,705) |  | $ | (1,361) |  | $ | 81 |  |
|  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  | |  |  | |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  | **Offsetting of Financial and Derivative Liabilities** | | | | | | | | | | | |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Net Amounts of** | | |  | **Gross Amounts Not Offset** | | | | |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **in the** | | |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  | **Gross Amounts** | |  |  |  |  |  | **Liabilities** | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Consolidated Balance Sheets** | | | |  |  |  |  |
|  |  |  | **Gross Amounts** | | | |  |  |  | **Offset in the** |  |  |  |  | **Presented in the** | | |  |  |  |  |
|  |  |  | **of Recognized** | | | |  |  |  | **Consolidated** |  |  |  |  |  | **Consolidated** | |  | **Financial** | |  | **Collateral** | |  | **Net Amount** |  |
|  |  |  |  |  | **Liabilities** |  |  |  | **Balance Sheets** | |  |  |  |  |  | **Balance Sheets** |  |  | **Instruments** |  |  | **Pledged 2** |  |  |  |
| **September 30, 2018** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest rate swap agreements, at fair value 1 | | $ | |  | 1 |  | $ | |  | — | $ | | | | | 1 |  | $ | (1) |  | $ | — | | $ | — |  |
| TBA securities, at fair value | |  |  |  | 61 |  |  |  |  | — |  |  |  |  |  | 61 |  |  | (18) |  |  | (43) |  |  | — |  |
| Repurchase agreements | |  |  |  | 65,734 |  |  |  |  | — |  |  |  |  |  | 65,734 |  |  | (13,269) |  |  | (52,465) |  |  | — |  |
| Total | | $ | |  | 65,796 |  | $ | |  | — | $ | | | | | 65,796 |  | $ | (13,288) |  | $ | (52,508) |  | $ | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **December 31, 2017** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest rate swap agreements, at fair value 1 | | $ | |  | 1 |  | $ | |  | — | $ | | | | | 1 |  | $ | (1) |  | $ | — | | $ | — |  |
| TBA securities, at fair value | |  |  |  | 27 |  |  |  |  | — |  |  |  |  |  | 27 |  |  | (22) |  |  | (5) |  |  | — |  |
| Repurchase agreements and FHLB advances | |  |  |  | 50,296 |  |  |  |  | — |  |  |  |  |  | 50,296 |  |  | (9,682) |  |  | (40,614) |  |  | — |  |
| Total | | $ | |  | 50,324 |  | $ | |  | — | $ | | | | | 50,324 |  | $ | (9,705) |  | $ | (40,619) |  | $ | — |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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

**Note 8. Fair Value Measurements**

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

The three levels of valuation hierarchy are defined as follows:

* Level 1 Inputs —Quoted prices (unadjusted) for identical unrestricted assets and liabilities in active markets that are accessible at the measurement date.

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* 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 September 30, 2018 and December 31, 2017 based on their categorization within the valuation hierarchy (in millions). There were no transfers between valuation hierarchy levels during the periods presented.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **September 30, 2018** | | | |  |  |  |  |  | **December 31, 2017** | | | |  |  |
|  |  | **Level 1** |  |  | **Level 2** | |  | **Level 3** | |  | **Level 1** |  |  | **Level 2** | |  | **Level 3** |
| Assets: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Agency securities | $ | — | $ | | 70,408 |  | $ | — | | $ | — | $ | | 55,506 |  | $ | — |
| Agency securities transferred to consolidated VIEs |  | — |  |  | 453 |  |  | — | |  | — |  |  | 662 |  |  | — |
| Credit risk transfer securities |  | — |  |  | 997 |  |  | — | |  | — |  |  | 876 |  |  | — |
| Non-Agency securities |  | — |  |  | 507 |  |  | — | |  | — |  |  | 36 |  |  | — |
| U.S. Treasury securities |  | 109 |  |  | — | |  | — | |  | — |  |  | — | |  | — |
| REIT equity securities |  | — |  |  | — | |  | — | |  | 29 |  |  | — | |  | — |
| Interest rate swaps |  | — |  |  | 217 |  |  | — | |  | — |  |  | 81 |  |  | — |
| Swaptions |  | — |  |  | 157 |  |  | — | |  | — |  |  | 75 |  |  | — |
| TBA securities |  | — |  |  | 18 |  |  | — | |  | — |  |  | 30 |  |  | — |
| U.S. Treasury futures |  | 20 |  |  | — |  |  | — |  |  | 19 |  |  | — |  |  | — |
| Total | $ | 129 | $ | | 72,757 |  | $ | — | | $ | 48 | $ | | 57,266 |  | $ | — |
| Liabilities: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Debt of consolidated VIEs | $ | — | $ | | 291 |  | $ | — | | $ | — | $ | | 357 |  | $ | — |
| Obligation to return U.S. Treasury securities borrowed under reverse |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| repurchase agreements |  | 15,549 |  |  | — | |  | — | |  | 10,467 |  |  | — | |  | — |
| Interest rate swaps |  | — |  |  | 1 |  |  | — | |  | — |  |  | 1 |  |  | — |
| TBA securities |  | — |  |  | 61 |  |  | — |  |  | — |  |  | 27 |  |  | — |
| Total | $ | 15,549 | $ | | 353 |  | $ | — | | $ | 10,467 | $ | | 385 |  | $ | — |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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 based 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.

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**Note 9. Net Income Per Common Share**

Basic net income per common share includes no dilution and is computed by dividing net income applicable to common stock by the weighted-average number of common shares outstanding for the respective period. Diluted earnings per common share includes the impact of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares outstanding include unvested restricted stock units and performance share units granted under our long-term incentive program to employees and non-employee Board of Directors. The following table presents the computations of basic and diluted net income per common share for the periods indicated (shares and dollars in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended** | | | | | **Nine Months Ended September** | | | | | |
|  |  | **September 30,** | | | | |  |  | **30,** | | |  |
|  |  | **2018** |  |  | **2017** |  |  | **2018** |  |  |  | **2017** |
| Weighted average number of common shares outstanding - basic |  | 462.3 |  |  | 364.7 |  |  | 419.8 |  |  |  | 347.5 |
| Unvested restricted stock units and performance share units |  | 0.4 |  |  | 0.2 |  |  | 0.3 |  |  |  | 0.1 |
| Weighted average number of common shares outstanding - diluted |  | 462.7 |  |  | 364.9 |  |  | 420.1 |  |  |  | 347.6 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income available to common stockholders | $ | 207 |  | $ | 271 |  | $ | 906 |  |  | $ | 357 |
| Net income per common share - basic | $ | 0.45 |  | $ | 0.74 |  | $ | 2.16 |  |  | $ | 1.03 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income per common share - diluted | $ | 0.45 |  | $ | 0.74 |  | $ | 2.16 | $ | | | 1.03 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

**Note 10. Stockholders' Equity**

***Preferred Stock***

Pursuant to our amended and restated certificate of incorporation, 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, 2017 and September 30, 2018, 8,050 shares were designated as 7.750% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock") and 13,800 shares were designated as 7.00% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock ("Series C Preferred Stock"). Shares of Series B and Series C Preferred Stock are represented by depositary shares equal to 1/1000 interest in each share of Series B and Series C Preferred Stock, respectively. As of December 31, 2017 and September 30, 2018, we had 7,000 shares of Series B Preferred Stock and 13,000 shares of Series C Preferred Stock outstanding (represented by 7.0 million Series B depositary shares and 13.0 million Series C depositary shares outstanding, respectively) and 9,980,000 of authorized but unissued shares of preferred stock.

Holders of depository shares underlying our Series B Preferred Stock are entitled to receive cumulative cash dividends at a rate of 7.750% per annum of their $25.00 per depositary share liquidation preference. Holders of depositary shares underlying our Series C Preferred Stock are entitled to receive cumulative cash dividends at a rate of 7.00% per annum up to, and including, October 14, 2022 and thereafter at a floating rate equal to three-month LIBOR plus a spread of 5.111% per annum of their $25.00 per depositary share liquidation preference. Dividends are payable quarterly in arrears on the 15th day of each January, April, July and October. As of September 30, 2018, we had declared all required quarterly dividends on our preferred stock.

Our preferred stock ranks senior to our common stock with respect to the payment of dividends and the distribution of assets upon a voluntary or involuntary liquidation, dissolution or winding up of the Company. Our preferred stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and ranks on parity with each other. Under certain circumstances upon a change of control, our preferred stock is convertible to shares of our common stock. Holders of our preferred stock and depository shares underlying our preferred stock have no voting rights, except under limited conditions. Beginning on May 8, 2019 and October 15, 2022, depository shares underlying our Series B and Series C Preferred Stock, respectively, will be redeemable at $25.00 per depositary share, plus accumulated and unpaid dividends (whether or not declared) exclusively at our option. We may redeem shares of our preferred stock prior to our optional redemption date under certain circumstances intended to preserve our qualification as a REIT for Federal income tax purposes.

***Common Stock Offerings***

In May 2018, we completed a public offering in which 34.5 million shares of our common stock were sold to the underwriters for proceeds of $633 million, or $18.35 per common share, net of offering costs. In August 2018, we completed a follow-on public offering of 43.7 million shares of our common stock for proceeds of $817 million, or $18.68 per common share, net of estimated offering costs. In May 2017, we completed a public offering in which 24.5 million shares of our common stock were sold to the underwriters for proceeds of $503 million, or $20.51 per common share, net of offering costs. In September 2017, we completed

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a public offering in which 28.2 million shares of our common stock were sold to the underwriters for proceeds of $577 million, or $20.47 per common share, net of estimated offering costs.

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

We have entered 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. On June 14, 2018, our existing sales agreement terminated and we entered into new sales agreements for shares of our common stock having an aggregate offering price of up to $1 billion. During the three months ended September 30, 2018, we did not sell any shares of our common stock under the sales agreements. During the nine months ended September 30, 2018, we sold 8.3 million shares of our common stock under the sales agreements for proceeds of $155 million, or $18.73 per common share, net of offering costs. During the three and nine months ended September 30, 2017, we sold 7.6 million shares of our common stock under the sales agreements for proceeds of $159 million or $20.96 per common share, net of offering costs. As of September 30, 2018, shares of our common stock with an aggregate offering price of $881 million remained available for issuance under this program.

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

The following table summarizes changes to accumulated OCI for the three and nine months ended September 30, 2018 and 2017 (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Three Months Ended** | | | | |  | **Nine Months Ended** | | | |
|  |  |  | **September 30,** | | | | |  | **September 30,** | | | |
| **Accumulated Other Comprehensive Income (Loss)** |  |  | **2018** |  |  | **2017** |  |  | **2018** |  |  | **2017** |
| **Beginning Balance** | | $ | (1,111) |  | $ | (230) |  | $ | (345) |  | $ | (397) |
| OCI before reclassifications | |  | (229) |  |  | 89 |  |  | (1,014) |  |  | 168 |
| (Gain) loss amounts for available-for-sale securities reclassified from accumulated OCI to | |  |  |  |  |  |  |  |  |  |  |  |
| realized gain (loss) on sale of investment securities | |  | 36 |  |  | 1 |  |  | 55 |  |  | 89 |
| **Ending Balance** | | $ | (1,304) |  | $ | (140) |  | $ | (1,304) |  | $ | (140) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

**Note 11. Subsequent Events**

On October 11, 2018, our Board of Directors declared a monthly dividend of $0.18 per common share, payable on November 9, 2018 to common stockholders of record as of October 31, 2018.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide a reader of AGNC Investment Corp.'s consolidated financial statements with a narrative from the perspective of management, and should be read in conjunction with the consolidated financial statements and accompanying notes included in this Quarterly Report on Form 10-Q for quarterly period ended September 30, 2018. Our MD&A is presented in six sections:

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

**EXECUTIVE OVERVIEW**

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

As a REIT, we are required to distribute annually 90% of our taxable income. So long as we continue to qualify 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 earn income primarily from investing 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.

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**

A strong U.S. economy drove U.S. stocks and Treasury yields higher for the first nine months of 2018. The yield curve flattened with the 10-year U.S. Treasury rate rising 65 basis points to 3.06% as of September 30, 2018, versus a 93 basis points rise in the two year U.S. Treasury rate. The increase in short term rates was driven primarily by the U.S. Federal Reserve’s decision to increase the federal funds rate three times, for a total of 75 basis points, during the first nine months of the year as it continued to move towards a neutral monetary policy stance. Consistent with general market sentiment, we believe the near-term bias is for rates to continue to move higher, but our expectation is that several potential factors, including escalating trade tensions, the challenging economic picture abroad, contained inflation, and/or a correction in asset valuations will ultimately limit rising interest rates over the next several quarters.

Agency RMBS spreads to swap and U.S. Treasury benchmark rates widened during the first quarter of 2018 but remained largely unchanged to slightly wider during the second and third quarters of the year. We anticipate that increased market volatility, higher rate expectations, and/or a further flattening of the yield curve could lead to additional spread widening over the near to intermediate term, which, while adversely affecting our tangible net book value, could also enhance the expected return on new investments and create the opportunity for us to increase leverage and improve the overall earnings potential of our investment portfolio.

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The combination of higher rates and wider spreads led to a decline in our tangible net book value for the three and nine months ended September 30, 2018 of $(0.41) and $(1.69), respectively, or -2.2% and -8.6%, respectively. Our economic return for the same periods was 0.7% and -0.4%, respectively, which includes the decline in our tangible net book value and $0.54 and $1.62 per common share, respectively, of dividends declared.

Our investment portfolio totaled $81.8 billion, inclusive of TBA securities, as of September 30, 2018, which reflects an increase from $72.8 billion as of December 31, 2017 consistent with the deployment of $1.6 billion of new equity capital raised during the second and third quarters of the year. As of September 30, 2018, our "at risk" leverage ratio was 8.2x our tangible equity, up marginally from 8.1x as of December 31, 2017.

In an effort to mitigate the impact of further interest rate volatility, we maintained an elevated interest rate hedge position for the first three quarters of the year, which limited the adverse impact of the increase in interest rates on our tangible net book value. Our interest rate hedge position totaled 103% of our funding liabilities as of March 31, 2018, 99% as of June 30, 2018 and 95% as of September 30, 2018. We expect that our hedge portfolio will continue to mitigate, although not fully offset, our exposure to further rate increases. Our hedges are not designed to hedge against wider Agency RMBS spreads. Consequently, higher rates and/or wider mortgage spreads could reduce our tangible net book value. For information regarding our interest rate and spread sensitivity please refer to Item 3. *Quantitative and Qualitative Disclosures about Market Risk* of this Form 10-Q.

In line with the 75 basis points increase in the federal funds rate during the first three quarters of 2018, our repurchase agreement cost of funds increased by a similar amount to an average of 2.20% for the third quarter of the year. Our total cost of funds, which includes the cost of our repurchase agreements, the implied funding costs of our TBA securities and cost/benefit associated with our interest rate swap hedges, increased by 36 basis points to an average of 1.88% for the third quarter from 1.52% for the fourth quarter of 2017. During the first nine months of the year, our cost of funds benefited from a favorable spread differential between the rate that we paid on our repo funding and three-month LIBOR that we received on our pay fixed interest rate swaps. Although it has since moderated from its peak level earlier in the year, this positive funding dynamic continues to modestly benefit our cost of funds.

Our average asset yield, including the implied yield on our TBA assets and excluding "catch-up" premium amortization associated with changes in our CPR forecast, increased 30 basis points to 3.18% for the third quarter of 2018 from 2.88% for the fourth quarter of 2017. Our net interest spread, which represents the difference between our asset yield and our cost of funds, was 1.30% for the third quarter of 2018, compared to 1.36% for the fourth quarter of 2017.

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***Market Information***

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Sept. 30,** | | **Dec. 31,** | | **Mar. 31,** | | **June 30,** | | **Sept. 30,** | | **Sept. 30, 2018** | | | **Sept. 30, 2018** | |  |
| **Interest Rate/Security Price 1** |  | **vs** | | | **vs** | |  |
| **2017** |  | **2017** |  | **2018** |  | **2018** |  | **2018** |  | **June 30, 2018** | |  | **Dec. 31, 2017** | |  |
| **LIBOR:** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 1-Month | | 1.23% |  | 1.56% |  | 1.88% |  | 2.09% |  | 2.26% |  | +0.17 | bps | | +0.70 | bps |  |
| 3-Month | | 1.33% |  | 1.69% |  | 2.31% |  | 2.34% |  | 2.40% |  | +0.06 | bps | | +0.71 | bps |  |
| **U.S. Treasury Security Rate:** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2-Year U.S. Treasury | | 1.48% |  | 1.89% |  | 2.27% |  | 2.53% |  | 2.82% |  | +0.29 | bps | | +0.93 | bps |  |
| 5-Year U.S. Treasury | | 1.93% |  | 2.21% |  | 2.57% |  | 2.73% |  | 2.95% |  | +0.22 | bps | | +0.74 | bps |  |
| 10-Year U.S. Treasury | | 2.33% |  | 2.41% |  | 2.74% |  | 2.85% |  | 3.06% |  | +0.21 | bps | | +0.65 | bps |  |
| 30-Year U.S. Treasury | | 2.86% |  | 2.74% |  | 2.97% |  | 2.98% |  | 3.20% |  | +0.22 | bps | | +0.46 | bps |  |
| **Interest Rate Swap Rate:** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2-Year Swap | | 1.73% |  | 2.08% |  | 2.58% |  | 2.79% |  | 2.99% |  | +0.20 | bps | | +0.91 | bps |  |
| 5-Year Swap | | 2.00% |  | 2.24% |  | 2.71% |  | 2.88% |  | 3.07% |  | +0.19 | bps | | +0.83 | bps |  |
| 10-Year Swap | | 2.28% |  | 2.40% |  | 2.78% |  | 2.93% |  | 3.12% |  | +0.19 | bps | | +0.72 | bps |  |
| 30-Year Swap | | 2.52% |  | 2.53% |  | 2.82% |  | 2.93% |  | 3.13% |  | +0.20 | bps | | +0.60 | bps |  |
| **30-Year Fixed Rate Agency Price:** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 3.0% |  | $100.33 |  | $100.02 |  | $97.52 |  | $96.86 |  | $95.67 |  | -$1.19 | |  | -$4.35 | |  |
| 3.5% |  | $103.09 |  | $102.70 |  | $100.20 |  | $99.52 |  | $98.41 |  | -$1.11 | |  | -$4.29 | |  |
| 4.0% |  | $105.27 |  | $104.59 |  | $102.61 |  | $101.96 |  | $100.97 |  | -$0.99 | |  | -$3.62 | |  |
| 4.5% |  | $107.33 |  | $106.40 |  | $104.70 |  | $104.13 |  | $103.16 |  | -$0.97 | |  | -$3.24 | |  |
| **15-Year Fixed Rate Agency Price:** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2.5% |  | $100.69 |  | $99.88 |  | $97.98 |  | $97.22 |  | $96.47 |  | -$0.75 | |  | -$3.41 | |  |
| 3.0% |  | $102.75 |  | $101.88 |  | $99.88 |  | $99.41 |  | $98.77 |  | -$0.64 | |  | -$3.11 | |  |
| 3.5% |  | $104.14 |  | $103.23 |  | $101.94 |  | $101.16 |  | $100.51 |  | -$0.65 | |  | -$2.72 | |  |
| 4.0% |  | $103.13 |  | $102.72 |  | $102.63 |  | $102.58 |  | $101.98 |  | -$0.60 | |  | -$0.74 | |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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.

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**FINANCIAL CONDITION**

As of September 30, 2018 and December 31, 2017, our investment portfolio consisted of $72.4 billion and $57.1 billion of investment securities, at fair value, respectively, and $9.4 billion and $15.7 billion of TBA securities, at fair value, respectively. The following table is a summary of our investment portfolio as of September 30, 2018 and December 31, 2017 (dollars in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | **September 30, 2018** | | | |  |  |  |  |  |  | **December 31, 2017** | | | |  |  |
| **Investment Portfolio (Includes TBAs) 1** |  |  | **Amortized** | |  | **Fair Value** |  | **Average** | | **%** |  |  | **Amortized** | |  | **Fair Value** |  | **Average** | | **%** |  |
|  | **Cost** |  |  | **Coupon** |  |  |  | **Cost** |  |  | **Coupon** |  |  |
| Fixed rate Agency RMBS and TBA securities: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| ≤ 15-year: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| ≤ 15-year RMBS | | $ | 6,989 |  | $ | 6,830 |  | 3.28% |  | 8% |  | $ | 8,951 |  | $ | 8,933 |  | 3.31% |  | 12% |  |
| 15-year TBA securities | |  | 4,673 |  |  | 4,654 |  | 3.53% |  | 6% |  |  | 5,025 |  |  | 5,015 |  | 2.90% |  | 7% |  |
| Total ≤ 15-year | |  | 11,662 |  |  | 11,484 |  | 3.38% |  | 14% |  |  | 13,976 |  |  | 13,948 |  | 3.16% |  | 19% |  |
| 20-year RMBS | |  | 802 |  |  | 791 |  | 3.94% |  | 1% |  |  | 673 |  |  | 687 |  | 3.48% |  | 1% |  |
| 30-year: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 30-year RMBS | |  | 64,403 |  |  | 62,223 |  | 3.82% |  | 76% |  |  | 45,853 |  |  | 45,406 |  | 3.72% |  | 62% |  |
| 30-year TBA securities | |  | 4,763 |  |  | 4,739 |  | 4.27% |  | 6% |  |  | 10,714 |  |  | 10,727 |  | 3.40% |  | 15% |  |
| Total 30-year | |  | 69,166 |  |  | 66,962 |  | 3.85% |  | 82% |  |  | 56,567 |  |  | 56,133 |  | 3.65% |  | 77% |  |
| Total fixed rate Agency RMBS and TBA securities | |  | 81,630 |  |  | 79,237 |  | 3.79% |  | 97% |  |  | 71,216 |  |  | 70,768 |  | 3.55% |  | 97% |  |
| Adjustable rate Agency RMBS | |  | 229 |  |  | 230 |  | 3.07% |  | —% | |  | 278 |  |  | 283 |  | 2.90% |  | 1% |  |
| CMO Agency RMBS: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| CMO | |  | 623 |  |  | 609 |  | 3.45% |  | 1% |  |  | 629 |  |  | 631 |  | 3.43% |  | 1% |  |
| Interest-only strips | |  | 83 |  |  | 83 |  | 3.84% |  | —% | |  | 101 |  |  | 112 |  | 4.39% |  | —% |  |
| Principal-only strips | |  | 98 |  |  | 95 |  | —% | | —% | |  | 112 |  |  | 116 |  | —% | | —% |  |
| Total CMO Agency RMBS | |  | 804 |  |  | 787 |  | 3.32% |  | 1% |  |  | 842 |  |  | 859 |  | 3.58% |  | 1% |  |
| Total Agency RMBS and TBA securities | |  | 82,663 |  |  | 80,254 |  | 3.78% |  | 98% |  |  | 72,336 |  |  | 71,910 |  | 3.55% |  | 99% |  |
| Non-Agency RMBS | |  | 375 |  |  | 374 |  | 3.85% |  | 1% |  |  | 7 |  |  | 7 |  | 2.50% |  | —% |  |
| CMBS | |  | 133 |  |  | 133 |  | 4.49% |  | —% | |  | 28 |  |  | 29 |  | 6.55% |  | —% |  |
| CRT | |  | 956 |  |  | 997 |  | 5.76% |  | 1% |  |  | 834 |  |  | 876 |  | 5.26% |  | —% |  |
| Total investment portfolio | | $ | 84,127 |  | $ | 81,758 |  | 3.80% |  | 100% |  | $ | 73,205 |  | $ | 72,822 |  | 3.57% |  | 100% |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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

TBA securities are recorded as derivative instruments in our accompanying consolidated financial statements and our TBA dollar roll transactions represent a form of off-balance sheet financing. As of September 30, 2018 and December 31, 2017, our TBA positions had a net carrying value of $(43) million and $3 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 September 30, 2018 and December 31, 2017, the weighted average yield on our investment securities (excluding TBA securities) was 3.22% and 2.89%, respectively.

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The following tables summarize certain characteristics of our fixed rate Agency RMBS portfolio, inclusive of TBAs, as of September 30, 2018 and

December 31, 2017 (dollars in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  | **September 30, 2018** | | | |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  | **Includes Net TBA Position** | | | | |  |  |  |  |  | **Excludes Net TBA Position** | | | | | |  |  |
|  |  |  |  |  |  |  |  |  |  |  | **% Lower** |  |  |  |  |  |  | **Weighted Average** | | | | **Projected** |  |
| **Fixed Rate Agency RMBS and TBA** | |  |  |  |  | **Amortized** | |  |  |  | **Loan Balance** |  |  | **Amortized** | |  |  |  |  |  |  | **Life** |  |
|  | **Par Value** |  |  | **Fair Value** | |  |  |  | **WAC 3** |  | **Yield 4** |  | **Age (Months)** |  |  |
| **Securities** |  |  |  | **Cost** |  | **& HARP 1,2** |  |  | **Cost Basis** |  | **CPR 4** |  |
| **Fixed rate** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| ≤ 15-year | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2.5% |  | $ | 1,414 |  | $ | 1,424 |  | $ | 1,377 |  | 59% | 101.2% | | |  | 2.98% |  | 2.11% |  | 71 |  | 9% |  |
| 3.0% |  |  | 2,746 |  |  | 2,783 |  |  | 2,717 |  | 59% | 101.8% | | |  | 3.51% |  | 2.44% |  | 54 |  | 9% |  |
| 3.5% |  |  | 4,628 |  |  | 4,701 |  |  | 4,656 |  | 41% | 102.5% | | |  | 4.02% |  | 2.80% |  | 32 |  | 9% |  |
| 4.0% |  |  | 2,501 |  |  | 2,573 |  |  | 2,556 |  | 39% | 103.5% | | |  | 4.46% |  | 2.95% |  | 46 |  | 9% |  |
| 4.5% |  |  | 172 |  |  | 179 |  |  | 176 |  | 98% | 104.1% | | |  | 4.87% |  | 3.01% |  | 96 |  | 11% |  |
| ≥ 5.0% | |  | 2 |  |  | 2 |  |  | 2 |  | 27% |  |  | 102.6% |  | 6.56% |  | 4.57% |  | 131 |  | 13% |  |
| Total ≤ 15-year | |  | 11,463 |  |  | 11,662 |  |  | 11,484 |  | 48% | 102.3% | | |  | 3.78% |  | 2.60% |  | 50 |  | 9% |  |
| 20-year | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 3.5% |  |  | 326 |  |  | 332 |  |  | 327 |  | 74% | 102.1% | | |  | 4.05% |  | 3.00% |  | 67 |  | 10% |  |
| 4.0% |  |  | 212 |  |  | 220 |  |  | 217 |  | 88% | 103.5% | | |  | 4.45% |  | 3.29% |  | 21 |  | 9% |  |
| 4.5% |  |  | 235 |  |  | 248 |  |  | 245 |  | 92% | 105.3% | | |  | 5.00% |  | 3.37% |  | 23 |  | 11% |  |
| ≥ 5.0% | |  | 2 |  |  | 2 |  |  | 2 |  | —% |  |  | 105.9% |  | 5.95% |  | 3.34% |  | 125 |  | 16% |  |
| Total 20-year: | |  | 775 |  |  | 802 |  |  | 791 |  | 84% | 103.4% | | |  | 4.46% |  | 3.20% |  | 41 |  | 10% |  |
| 30-year: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 3.0% |  |  | 3,429 |  |  | 3,403 |  |  | 3,292 |  | 3% | 100.2% | | |  | 3.59% |  | 2.96% |  | 47 |  | 5% |  |
| 3.5% |  |  | 23,051 |  |  | 23,925 |  |  | 22,788 |  | 58% | 103.5% | | |  | 4.05% |  | 3.03% |  | 36 |  | 6% |  |
| 4.0% |  |  | 29,930 |  |  | 31,269 |  |  | 30,389 |  | 59% | 104.8% | | |  | 4.50% |  | 3.33% |  | 26 |  | 7% |  |
| 4.5% |  |  | 9,858 |  |  | 10,334 |  |  | 10,263 |  | 63% | 105.3% | | |  | 4.96% |  | 3.74% |  | 16 |  | 7% |  |
| 5.0% |  |  | 137 |  |  | 147 |  |  | 145 |  | 69% | 107.2% | | |  | 5.52% |  | 3.76% |  | 78 |  | 8% |  |
| ≥ 5.5% | |  | 80 |  |  | 88 |  |  | 85 |  | 35% |  |  | 110.8% |  | 6.18% |  | 3.38% |  | 144 |  | 11% |  |
| Total 30-year | |  | 66,485 |  |  | 69,166 |  |  | 66,962 |  | 57% |  |  | 104.1% |  | 4.34% |  | 3.24% |  | 30 |  | 6% |  |
| **Total fixed rate** | | $ | 78,723 |  | $ | 81,630 |  | $ | 79,237 |  | 56% | 104.0% | | |  | 4.29% |  | 3.18% |  | 32 |  | 7% |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. Lower loan balance securities represent pools backed by an original loan balance of ≤ $150,000. Our lower loan balance securities had a weighted average original loan balance of $102,000 and $113,000 for 15-year and 30-year securities, respectively, as of September 30, 2018.
2. HARP securities are defined as pools backed by 100% refinance loans with LTV ≥ 80%. Our HARP securities had a weighted average LTV of 117% and 136% for 15-year and 30-year securities, respectively, as of September 30, 2018.
3. WAC represents the weighted average coupon of the underlying collateral.
4. Portfolio yield incorporates a projected life CPR assumption based on forward rate assumptions as of September 30, 2018.

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  | **December 31, 2017** | | |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  | **Includes Net TBA Position** | | | | |  |  |  |  | **Excludes Net TBA Position** | | | | | |  |  |
|  |  |  |  |  |  |  |  |  |  |  | **% Lower** |  |  |  |  |  | **Weighted Average** | | | | **Projected** |  |
| **Fixed Rate Agency RMBS and TBA** | |  |  |  |  | **Amortized** | |  |  |  | **Loan Balance** |  | **Amortized** | |  |  |  |  |  |  | **Life** |  |
|  | **Par Value** |  |  | **Fair Value** | |  |  | **WAC 3** |  | **Yield 4** |  | **Age (Months)** |  |  |
| **Securities** |  |  |  | **Cost** |  | **& HARP 1,2** |  | **Cost Basis** |  | **CPR 4** |  |
| **Fixed rate** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| ≤ 15-year | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| ≤ 2.5% | | $ | 3,041 |  | $ | 3,061 |  | $ | 3,046 |  | 32% | 101.2% | |  | 2.98% |  | 2.13% |  | 63 |  | 9% |  |
| 3.0% |  |  | 5,616 |  |  | 5,749 |  |  | 5,724 |  | 33% | 102.8% | |  | 3.49% |  | 2.18% |  | 62 |  | 10% |  |
| 3.5% |  |  | 2,710 |  |  | 2,804 |  |  | 2,804 |  | 75% | 103.5% | |  | 3.96% |  | 2.42% |  | 69 |  | 11% |  |
| 4.0% |  |  | 2,054 |  |  | 2,134 |  |  | 2,145 |  | 89% | 103.9% | |  | 4.40% |  | 2.68% |  | 84 |  | 11% |  |
| 4.5% |  |  | 215 |  |  | 224 |  |  | 225 |  | 98% | 104.3% | |  | 4.87% |  | 3.01% |  | 88 |  | 12% |  |
| ≥ 5.0% | |  | 4 |  |  | 4 |  |  | 4 |  | 17% |  | 102.8% |  | 6.56% |  | 4.47% |  | 125 |  | 44% |  |
| Total ≤ 15-year | |  | 13,640 |  |  | 13,976 |  |  | 13,948 |  | 51% | 103.0% | |  | 3.77% |  | 2.38% |  | 70 |  | 10% |  |
| 20-year | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| ≤ 3.0% | |  | 195 |  |  | 193 |  |  | 198 |  | 31% | 99.4% | |  | 3.55% |  | 3.10% |  | 55 |  | 9% |  |
| 3.5% |  |  | 365 |  |  | 373 |  |  | 380 |  | 75% | 102.1% | |  | 4.05% |  | 3.00% |  | 58 |  | 11% |  |
| 4.0% |  |  | 45 |  |  | 47 |  |  | 48 |  | 51% | 104.2% | |  | 4.54% |  | 2.96% |  | 76 |  | 11% |  |
| 4.5% |  |  | 55 |  |  | 58 |  |  | 59 |  | 99% | 106.5% | |  | 4.90% |  | 2.95% |  | 85 |  | 11% |  |
| ≥ 5.0% | |  | 2 |  |  | 2 |  |  | 2 |  | —% |  | 106.0% |  | 5.95% |  | 3.32% |  | 116 |  | 17% |  |
| Total 20-year: | |  | 662 |  |  | 673 |  |  | 687 |  | 62% | 101.8% | |  | 4.02% |  | 3.02% |  | 61 |  | 10% |  |
| 30-year: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| ≤ 3.0% | |  | 7,583 |  |  | 7,576 |  |  | 7,592 |  | 1% | 100.2% | |  | 3.58% |  | 2.96% |  | 43 |  | 6% |  |
| 3.5% |  |  | 24,045 |  |  | 25,072 |  |  | 24,800 |  | 56% | 104.6% | |  | 4.04% |  | 2.84% |  | 35 |  | 7% |  |
| 4.0% |  |  | 21,015 |  |  | 22,348 |  |  | 22,166 |  | 64% | 106.5% | |  | 4.47% |  | 2.99% |  | 29 |  | 9% |  |
| 4.5% |  |  | 1,271 |  |  | 1,366 |  |  | 1,369 |  | 71% | 107.4% | |  | 4.98% |  | 3.18% |  | 62 |  | 10% |  |
| 5.0% |  |  | 97 |  |  | 103 |  |  | 104 |  | 65% | 106.6% | |  | 5.45% |  | 3.69% |  | 116 |  | 10% |  |
| ≥ 5.5% | |  | 92 |  |  | 102 |  |  | 102 |  | 36% |  | 110.0% |  | 6.18% |  | 3.34% |  | 135 |  | 14% |  |
| Total 30-year | |  | 54,103 |  |  | 56,567 |  |  | 56,133 |  | 52% |  | 105.2% |  | 4.23% |  | 2.93% |  | 34 |  | 8% |  |
| **Total fixed rate** | | $ | 68,405 |  | $ | 71,216 |  | $ | 70,768 |  | 52% | 104.8% | |  | 4.15% |  | 2.84% |  | 40 |  | 8% |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. Lower loan balance securities represent pools backed by an original loan balance of ≤ $150,000. Our lower loan balance securities had a weighted average original loan balance of $97,000 and $109,000 for 15-year and 30-year securities, respectively, as of December 31, 2017.
2. HARP securities are defined as pools backed by 100% refinance loans with LTVs ≥ 80%. Our HARP securities had a weighted average LTV of 114% and 136% for 15-year and 30-year securities, respectively, as of December 31, 2017.
3. WAC represents the weighted average coupon of the underlying collateral.
4. Portfolio yield incorporates a projected life CPR assumption based on forward rate assumptions as of December 31, 2017.

As of September 30, 2018 and December 31, 2017, our investments in CRT and non-Agency securities had the following credit ratings:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **September 30, 2018** | | | |  |  |  |  |  | **December 31, 2017** | | | |  |  |  |
| **CRT and Non-Agency Security Credit Ratings 1** |  |  | **CRT** |  |  | **RMBS** |  |  | **CMBS** |  |  | **CRT** |  |  | **RMBS** |  |  | **CMBS** |  |
| AAA | | $ | — | $ | | 276 |  | $ | 37 |  | $ | — | $ | | 7 |  | $ | — |  |
| AA | |  | — |  |  | 21 |  |  | 61 |  |  | — |  |  | — | |  | — |  |
| A | |  | 17 |  |  | 27 |  |  | — | |  | 1 |  |  | — | |  | — |  |
| BBB | |  | 67 |  |  | 37 |  |  | 30 |  |  | 34 |  |  | — | |  | 29 |  |
| BB | |  | 428 |  |  | 8 |  |  | 5 |  |  | 370 |  |  | — | |  | — |  |
| B | |  | 458 |  |  | 2 |  |  | — | |  | 455 |  |  | — | |  | — |  |
| Not Rated | |  | 27 |  |  | 3 |  |  | — |  |  | 16 |  |  | — |  |  | — |  |
| Total | | $ | 997 | $ | | 374 |  | $ | 133 |  | $ | 876 | $ | | 7 |  | $ | 29 |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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

Our CRT securities reference the performance of loans underlying Agency RMBS issued by Fannie Mae or Freddie Mac, which were subject to their underwriting standards. As of September 30, 2018, our CRT securities had floating and fixed rate

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coupons ranging from 3.6% to 9.2%, referenced to loans originated between 2011 and 2018 with weighted average coupons ranging from 3.6% to 4.5%. As of December 31, 2017, our CRT securities had floating rate coupons ranging from 3.9% to 8.5%, referenced to loans originated between 2012 and 2017 with weighted average coupons ranging from 3.6% to 4.4%.

**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 dividends on REIT equity securities (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 to exclude one-time expenses and non-recurring termination fee income recognized in connection with the sale of MTGE Investment Corp. and corresponding termination of the Company's management agreement with MTGE.

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

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

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

***Selected Financial Data***

The following selected financial data is derived from our interim consolidated financial statements and the notes thereto. The tables below present our condensed consolidated balance sheets as of September 30, 2018 and December 31, 2017 and our condensed consolidated statements of comprehensive income and key statistics for the three and nine months ended September 30, 2018 and 2017 (in millions, except per share amounts):

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|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **($ in Millions, Except Per Share Amounts)** | |  |  |  |  |  |
| **Balance Sheet Data** |  | **September 30, 2018** | |  | **December 31, 2017** | |
| Investment securities, at fair value | | $ | 72,365 |  | $ | 57,080 |
|  |  |  |  |  |  |  |
| Total assets | | $ | 92,031 |  | $ | 70,376 |
| Repurchase agreements and other debt | | $ | 66,025 |  | $ | 50,653 |
|  |  |  |  |  |  |  |
| Total liabilities | | $ | 82,404 |  | $ | 61,622 |
| Total stockholders' equity | | $ | 9,627 |  | $ | 8,754 |
|  |  |  |  |  |  |  |
| Net book value per common share 1 | | $ | 19.10 |  | $ | 21.09 |
| Tangible net book value per common share 2 | | $ | 18.00 |  | $ | 19.69 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended September** | | | | | | | **Nine Months Ended September** | | | | | |
|  |  |  |  | **30,** | | |  |  |  |  | **30,** | | |  |
| **Statement of Comprehensive Income Data** |  |  | **2018** |  |  |  | **2017** |  |  | **2018** |  |  |  | **2017** |
| Interest income | | $ | 500 | $ | | | 318 |  | $ | 1,345 | $ | | | 907 |
| Interest expense | |  | 312 |  |  |  | 140 |  |  | 755 |  |  |  | 350 |
| Net interest income | |  | 188 |  |  |  | 178 |  |  | 590 |  |  |  | 557 |
| Other gain (loss), net | |  | 73 |  |  |  | 126 |  |  | 424 |  |  |  | (119) |
| Operating expenses | |  | 45 |  |  |  | 18 |  |  | 81 |  |  |  | 52 |
| Net income | |  | 216 |  |  |  | 286 |  |  | 933 |  |  |  | 386 |
| Dividend on preferred stock | |  | 9 |  |  |  | 9 |  |  | 27 |  |  |  | 23 |
| Issuance costs of redeemed preferred stock | |  | — |  |  |  | 6 |  |  | — |  |  |  | 6 |
| Net income available to common stockholders | | $ | 207 | $ | | | 271 |  | $ | 906 | $ | | | 357 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income | | $ | 216 | $ | | | 286 |  | $ | 933 | $ | | | 386 |
| Other comprehensive income (loss) | |  | (193) |  |  |  | 90 |  |  | (959) |  |  |  | 257 |
| Comprehensive income (loss) | |  | 23 |  |  |  | 376 |  |  | (26) |  |  |  | 643 |
| Dividend on preferred stock | |  | 9 |  |  |  | 9 |  |  | 27 |  |  |  | 23 |
| Issuance costs of redeemed preferred stock | |  | — |  |  |  | 6 |  |  | — |  |  |  | 6 |
| Comprehensive income (loss) available (attributable) to common stockholders | | $ | 14 | $ | | | 361 |  | $ | (53) | $ | | | 614 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Weighted average number of common shares outstanding - basic | |  | 462.3 |  |  |  | 364.7 |  |  | 419.8 |  |  |  | 347.5 |
| Weighted average number of common shares outstanding - diluted | |  | 462.7 |  |  |  | 364.9 |  |  | 420.1 |  |  |  | 347.6 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income per common share - basic | | $ | 0.45 |  |  | $ | 0.74 |  | $ | 2.16 |  |  | $ | 1.03 |
| Net income per common share - diluted | | $ | 0.45 |  |  | $ | 0.74 |  | $ | 2.16 |  |  | $ | 1.03 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Comprehensive income (loss) per common share - basic and diluted | | $ | 0.03 |  |  | $ | 0.99 |  | $ | (0.13) |  |  | $ | 1.77 |
| Dividends declared per common share | | $ | 0.54 | $ | | | 0.54 |  | $ | 1.62 | $ | | | 1.62 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended September** | | | | | **Nine Months Ended September 30,** | | |  |
|  |  |  | **30,** | | |  |  |
| **Other Data (Unaudited) \*** |  | **2018** |  |  | **2017** |  | **2018** |  | **2017** |  |
| Average investment securities - at par | | $61,696 | $44,672 | | |  | $56,179 |  | $42,959 |  |
| Average investment securities - at cost | | $64,346 | $46,808 | | |  | $58,705 |  | $44,977 |  |
| Average net TBA portfolio - at cost | | $18,270 | $18,616 | | |  | $16,932 |  | $16,355 |  |
| Average total assets - at fair value | | $82,169 | $58,848 | | |  | $73,236 |  | $55,902 |  |
| Average Agency repurchase agreements and other debt outstanding 3 | | $56,265 | $41,406 | | |  | $51,243 |  | $39,859 |  |
| Average stockholders' equity 4 | | $9,345 | $8,134 | | |  | $8,875 |  | $7,695 |  |
| Average tangible net book value "at risk" leverage 5 | | 8.5:1 | 7.9:1 | | |  | 8.2:1 |  | 7.9:1 |  |
| Tangible net book value "at risk" leverage *(as of period end)* 6 | | 8.2:1 | 8.0:1 | | |  | 8.2:1 |  | 8.0:1 |  |
| Economic return on tangible common equity, unannualized 7 | | 0.7% | 5.6% | | |  | (0.4)% |  | 9.7% |  |
| Expenses % of average total assets, annualized 8 | | 0.09% | 0.12% | | |  | 0.10 % |  | 0.12% |  |
| Expenses % of average assets, including average net TBA position, annualized 8 | | 0.08% | 0.09% | | |  | 0.08 % |  | 0.09% |  |
| Expenses % of average stockholders' equity, annualized 8 | | 0.81% | 0.89% | | |  | 0.83 % |  | 0.87% |  |

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\* 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 asset, net.
3. Other debt includes debt of consolidated VIEs. Amount excludes U.S. Treasury repo agreements and TBA contracts.
4. Average stockholders' equity calculated as average month-ended stockholders' equity during the period.
5. Average tangible net book value "at risk" leverage is calculated by dividing the sum of daily weighted average mortgage borrowings outstanding (Agency repo, other debt and TBA securities (at cost)) for the period by the sum of average stockholders' equity less average investment in REIT equity securities, goodwill and other intangible asset, net for the period. Leverage excludes U.S. Treasury repurchase agreements.
6. "At risk" leverage as of period end is calculated by dividing the sum of mortgage borrowings outstanding and receivable/payable for unsettled investment securities as of period end (at cost) by the sum of total stockholders' equity less the fair value of investments in REIT equity securities, goodwill and other intangible asset, net at period end. Leverage excludes U.S. Treasury repurchase agreements.
7. Economic return on tangible common equity represents the sum of the change in tangible net book value per common share and dividends declared on common stock during the period over beginning tangible net book value per common share.
8. Expenses for the three and nine months ended September 30, 2018, have been adjusted to exclude the non-recurring write-off of the intangible asset and other expenses associated with the sale of MTGE Investment Corp. and corresponding termination of AGNC's management agreement with MTGE.

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

The following table summarizes our economic interest income (a non-GAAP measure) for the three and nine months ended September 30, 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 due to changes in our CPR forecast, and implied interest income on our TBA securities (dollars in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended September 30,** | | | | | | | | |  |  |  | **Nine Months Ended September 30,** | | | | | | | | |  |  |
|  |  | **2018** | | |  |  |  | **2017** | | |  |  |  | **2018** | | |  |  |  | **2017** | | |  |  |
|  |  | **Amount** | | | **Yield** | |  | **Amount** | | | **Yield** | |  | **Amount** | | | **Yield** | |  | **Amount** | | | **Yield** |  |
| Interest income: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cash/coupon interest income | $ | 581 |  |  | 3.77 % |  | $ | 415 |  |  | 3.72 % |  | $ | 1,569 |  |  | 3.72 % |  | $ | 1,189 |  |  | 3.69 % |  |
| Net premium amortization |  | (81) |  |  | (0.66)% |  |  | (97) |  |  | (1.00)% |  |  | (224) |  |  | (0.67)% |  |  | (282) |  |  | (1.00)% |  |
| Interest income (GAAP measure) |  | 500 |  |  | 3.11 % |  |  | 318 |  |  | 2.72 % |  |  | 1,345 |  |  | 3.05 % |  |  | 907 |  |  | 2.69 % |  |
| Estimated "catch-up" premium amortization (benefit) cost due to |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| change in CPR forecast |  | (6) |  |  | (0.04)% |  |  | 12 |  |  | 0.10 % |  |  | (39) |  |  | (0.08)% |  |  | 34 |  |  | 0.10 % |  |
| Interest income, excluding "catch-up" premium amortization |  | 494 |  |  | 3.07 % |  |  | 330 |  |  | 2.82 % |  |  | 1,306 |  |  | 2.97 % |  |  | 941 |  |  | 2.79 % |  |
| TBA dollar roll income - implied interest income 1,2 |  | 162 |  |  | 3.54 % |  |  | 139 |  |  | 2.99 % |  |  | 426 |  |  | 3.35 % |  |  | 359 |  |  | 2.94 % |  |
| Economic interest income, excluding "catch-up" amortization | $ | 656 |  |  | 3.18 % |  | $ | 469 |  |  | 2.87 % |  | $ | 1,732 |  |  | 3.05 % |  | $ | 1,300 |  |  | 2.83 % |  |
| (non-GAAP measure) 3 |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Weighted average actual portfolio CPR for investment securities |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| held during the period |  | 9.7% |  |  |  |  |  | 12.1% |  |  |  |  |  | 9.3% |  |  |  |  |  | 11.2% |  |  |  |  |
| Weighted average projected CPR for the remaining life of |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| investment securities held as of period end |  | 6.8% |  |  |  |  |  | 8.5% |  |  |  |  |  | 6.8% |  |  |  |  |  | 8.5% |  |  |  |  |
| Average 30-year fixed rate mortgage rate as of period end 4 |  | 4.72% |  |  |  |  |  | 3.83% |  |  |  |  |  | 4.72% |  |  |  |  |  | 3.83% |  |  |  |  |
| 10-year U.S. Treasury rate as of period end |  | 3.06% |  |  |  |  |  | 2.33% |  |  |  |  |  | 3.06% |  |  |  |  |  | 2.33% |  |  |  |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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

The principal elements impacting our economic interest income are the size of our average investment portfolio and the yield (actual and implied) on our securities. The following is a summary of the estimated impact of each of these elements on our economic interest income for the three and nine months ended September 30, 2018 compared to the prior year period (in millions):

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



**Periods ended September 30, 2018 vs. September 30, 2017**



|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Due to Change in Average** | | | |
|  | **Total Increase /** |  |  |  | **Portfolio** | |  | **Asset** |
|  | **(Decrease)** |  |  |  | **Size** | |  | **Yield** |
| **Three months ended:** |  |  |  |  |  |  |  |  |
| Interest Income (GAAP measure) | $ | 182 |  | $ | 119 |  | $ | 63 |
| Estimated "catch-up" premium amortization due to change in CPR forecast |  | (18) |  |  | — | |  | (18) |
| Interest income, excluding "catch-up" premium amortization |  | 164 |  |  | 119 |  |  | 45 |
| TBA dollar roll income - implied interest income |  | 23 |  |  | (3) |  |  | 26 |
| Economic interest income, excluding "catch-up" amortization (non-GAAP measure) | $ | 187 |  | $ | 116 |  | $ | 71 |
|  |  |  |  |  |  |  |  |  |
| **Nine months ended:** |  |  |  |  |  |  |  |  |
| Interest Income (GAAP measure) | $ | 438 |  | $ | 277 |  | $ | 161 |
| Estimated "catch-up" premium amortization due to change in CPR forecast |  | (73) |  |  | — | |  | (73) |
| Interest income, excluding "catch-up" premium amortization |  | 365 |  |  | 277 |  |  | 88 |
| TBA dollar roll income - implied interest income |  | 67 |  |  | 13 |  |  | 54 |
| Economic interest income, excluding "catch-up" amortization (non-GAAP measure) | $ | 432 |  | $ | 290 |  | $ | 142 |
|  |  |  |  |  |  |  |  |  |

Our average investment portfolio increased 26% and 23% (at cost) for the three and nine months ended September 30, 2018, respectively, from the prior year period mainly due to the deployment of new equity capital. The increase in our average asset yield over the prior year periods was largely due to changes in asset composition and lower forecasted prepayment rates, as we increased our holdings of higher coupon, 30-year fixed rate securities and higher prevailing interest rates led to a decline in our prepayment forecasts.

***Leverage***

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

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

Our tangible net book value "at risk" leverage was 8.2x and 8.1x as of September 30, 2018 and December 31, 2017, respectively. The table below presents a summary of our leverage ratios for the periods listed (dollars in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Agency Repurchase Agreements and Other Debt** | | | | | | | | |  | **Net TBA Position** | | | |  | **Average** | |  |  |  |  |  |  |
|  |  |  |  | **Tangible Net** | |  |  |  |  |  |  |
|  |  |  |  |  |  | **1** |  |  |  |  |  | **Long/(Short) 2** | | | |  | **Book Value** | | **Average** | | **Tangible Net** | |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **"At Risk"** | | **"At Risk"** | | **Book Value "At** | | **"At Risk"** |  |
|  |  |  |  |  |  |  |  |  |  |  |  | **Average** | |  |  |  | **Leverage** | | **Leverage** | | **Risk" Leverage** | | **Leverage** |  |
|  |  | **Average Daily** | | |  | **Maximum** | |  | **Ending** | |  | **Daily** | |  | **Ending** |  | **during the** | | **during the** | | **as of** | | **as of** |  |
| **Quarter Ended** |  |  | **Amount** |  | **Daily Amount** | |  |  | **Amount** |  |  | **Amount** |  |  | **Amount** |  | **Period 3** |  | **Period 4** |  | **Period End 3** |  | **Period End 5** |  |
| September 30, 2018 | | $ | 56,265 |  | $ | 66,969 |  | $ | 65,975 |  | $ | 18,270 |  | $ | 9,436 | 8.5:1 | |  | 8.0:1 |  | 8.2:1 |  | 7.8:1 |  |
| June 30, 2018 | | $ | 47,823 |  | $ | 49,892 |  | $ | 49,152 |  | $ | 16,912 |  | $ | 19,898 | 8.0:1 | |  | 7.5:1 |  | 8.3:1 |  | 7.8:1 |  |
| March 31, 2018 | | $ | 49,567 |  | $ | 50,645 |  | $ | 49,292 |  | $ | 15,585 |  | $ | 13,529 | 8.2:1 | |  | 7.7:1 |  | 8.2:1 |  | 7.6:1 |  |
| December 31, 2017 | | $ | 48,122 |  | $ | 51,322 |  | $ | 50,653 |  | $ | 18,355 |  | $ | 15,739 | 8.1:1 | |  | 7.6:1 |  | 8.1:1 |  | 7.6:1 |  |
| September 30, 2017 | | $ | 41,406 |  | $ | 47,442 |  | $ | 45,885 |  | $ | 18,616 |  | $ | 19,433 | 7.9:1 | |  | 7.4:1 |  | 8.0:1 |  | 7.6:1 |  |
| June 30, 2017 | | $ | 38,945 |  | $ | 40,112 |  | $ | 39,463 |  | $ | 16,931 |  | $ | 17,283 | 8.0:1 | |  | 7.4:1 |  | 8.1:1 |  | 7.5:1 |  |
| March 31, 2017 | | $ | 39,203 |  | $ | 41,221 |  | $ | 39,809 |  | $ | 13,460 |  | $ | 14,377 | 7.8:1 | |  | 7.2:1 |  | 8.0:1 |  | 7.4:1 |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. Other debt includes debt of consolidated VIEs. Amounts exclude U.S. Treasury repo agreements.

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1. Daily average and ending net TBA position outstanding measured at cost.
2. Tangible net book value "at risk" leverage includes the components of "at risk" leverage with stockholders' equity adjusted to exclude goodwill and other intangible asset, net.
3. Average "at risk" leverage during the period was calculated by dividing the sum of our daily weighted average mortgage borrowings outstanding during the period by the sum of our average month-ended stockholders' equity less our average investment in REIT equity securities for the period.
4. "At risk" leverage as of period end is calculated by dividing the sum of our mortgage borrowings outstanding and our receivable/payable for unsettled investment securities as of period end (at cost) by the sum of our total stockholders' equity less the fair value of investments in REIT equity securities at period end. Leverage excludes U.S. Treasury repo agreements.

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

The following table summarizes our economic interest expense and aggregate cost of funds (non-GAAP measures) for the three and nine months ended September 30, 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:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Three Months Ended September 30,** | | | | | | | | | | |  | **Nine Months Ended September 30,** | | | | | | | | | |  |
|  |  |  | **2018** | | |  |  |  | **2017** | | |  |  |  | **2018** | | |  |  |  | **2017** | | |  |  |
| **Economic Interest Expense and Aggregate Cost** | | **Amount** | |  |  | **Cost of** | | **Amount** | |  |  | **Cost of** | | **Amount** | |  |  | **Cost of** | | **Amount** | |  |  | **Cost of** |  |
| **of Funds 1** |  | **Funds** |  | **Funds** |  | **Funds** |  | **Funds** |  |
| Repurchase agreement and other debt - interest | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| expense (GAAP measure) | | $ | 312 |  |  | 2.20 % |  | $ | 140 |  |  | 1.34% |  | $ | 755 |  |  | 1.97 % |  | $ | 350 |  |  | 1.17% |  |
| TBA dollar roll income - implied interest expense | |  | 94 |  |  | 2.05 % |  |  | 52 |  |  | 1.12% |  |  | 226 |  |  | 1.78 % |  |  | 108 |  |  | 0.89% |  |
| 2,3 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Economic interest expense - before interest rate | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| swap costs 4 | |  | 406 |  |  | 2.18 % |  |  | 192 |  |  | 1.28% |  |  | 981 |  |  | 1.92 % |  |  | 458 |  |  | 1.09% |  |
| Interest rate swap periodic interest (income) cost, | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| net 2,5 | |  | (56) |  |  | (0.30)% |  |  | 26 |  |  | 0.18% |  |  | (88) |  |  | (0.17)% |  |  | 106 |  |  | 0.25% |  |
| Total economic interest expense (non-GAAP | | $ | 350 |  |  | 1.88 % |  | $ | 218 |  |  | 1.46% |  | $ | 893 |  |  | 1.75 % |  | $ | 564 |  |  | 1.34% |  |
| measure) | |  |  |  |  |  |  |  |  |  |  |  |  |



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

The principal elements impacting our economic interest expense are (i) the size of our average mortgage borrowings and interest rate swap portfolio outstanding during the period, (ii) the average interest rate (actual and implied) on our mortgage borrowings and (iii) the average net interest rate paid/received on our interest rate swaps. The following is a summary of the estimated impact of these elements on our economic interest expense for the three and nine months ended September 30, 2018, compared to the prior year period (in millions):

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



**Periods ended September 30, 2018 vs. September 30, 2017**



|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Due to Change in Average** | | |  |
|  |  | **Total Increase /** | |  | **Borrowing / Swap** | | **Borrowing / Swap** | |
|  |  | **(Decrease)** | |  | **Balance** | | **Rate** |  |
| **Three months ended:** |  |  |  |  |  |  |  |  |
| Repurchase agreements and other debt interest expense | $ | 172 |  | $ | 50 |  | $ | 122 |
| TBA dollar roll income - implied interest expense |  | 42 |  |  | (1) |  |  | 43 |
| Interest rate swap periodic interest income/cost |  | (82) |  |  | 4 |  |  | (86) |
| Total change in economic interest expense | $ | 132 |  | $ | 53 |  | $ | 79 |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| **Nine months ended:** |  |  |  |  |  |  |  |  |
| Repurchase agreements and other debt interest expense | $ | 405 |  | $ | 100 |  | $ | 305 |
| TBA dollar roll income - implied interest expense |  | 118 |  |  | 4 |  |  | 114 |
| Interest rate swap periodic interest income/cost |  | (194) |  |  | 17 |  |  | (211) |
| Total change in economic interest expense | $ | 329 |  | $ | 121 |  | $ | 208 |
|  |  |  |  |  |  |  |  |  |

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Our average mortgage borrowings increased by 24% and 21% for the three and nine months ended September 30, 2018, respectively, from the prior year period as a function of our higher asset base. The increase in the average interest rate (actual and implied) on our mortgage borrowings was largely a function of increases in the federal funds rate during 2017 and through the first nine months of 2018. The decrease in our periodic swap costs was due to the receive-floating rate leg of our interest rate swaps resetting to higher prevailing three-month LIBOR rates.

The table below presents a summary of the ratio of our average interest rates swaps outstanding, excluding forward starting swaps, to our average mortgage borrowings for the three and nine months ended September 30, 2018 and 2017 (dollars in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended September** | | | | | | | **Nine Months Ended September** | | | | | |
|  |  |  |  | **30,** | | |  |  |  |  | **30,** | | |  |
| **Average Ratio of Interest Rate Swaps (Excluding Forward Starting Swaps) to Mortgage Borrowings Outstanding** |  |  | **2018** |  |  |  | **2017** |  |  | **2018** |  |  |  | **2017** |
| Average Agency repo and other debt outstanding | | $ | 56,265 | $ | | | 41,406 |  | $ | 51,243 | $ | | | 39,859 |
| Average net TBA portfolio outstanding - at cost | | $ | 18,270 |  |  | $ | 18,616 |  | $ | 16,932 |  |  | $ | 16,355 |
| Average mortgage borrowings outstanding | | $ | 74,535 | $ | | | 60,022 |  | $ | 68,175 | $ | | | 56,214 |
| Average notional amount of interest rate swaps outstanding (excluding forward starting swaps) | | $ | 44,032 |  |  | $ | 38,013 |  | $ | 42,630 |  |  | $ | 36,785 |



|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Ratio of average interest rate swaps to mortgage borrowings outstanding | 59 % |  | 63 % |  | 63 % |  | 65 % |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| Average interest rate swap pay-fixed rate (excluding forward starting swaps) | 1.86 % |  | 1.56 % |  | 1.79 % |  | 1.52 % |
| Average interest rate swap receive-floating rate | (2.36)% |  | (1.29)% |  | (2.07)% |  | (1.13)% |
| Average interest rate swap net pay/(receive) rate | (0.50)% |  | 0.27 % |  | (0.28)% |  | 0.39 % |
|  |  |  |  |  |  |  |  |

For the three and nine months ended September 30, 2018, we had an average forward starting swap balance of $4.2 billion and $3.8 billion, respectively. For the three and nine months ended September 30, 2017, we had an average forward starting swap balance of $2.2 billion and $1.7 billion, respectively. Forward starting interest rate swaps do not impact our economic interest expense and aggregate cost of funds until they commence accruing net interest settlements on their forward start dates. Including forward starting swaps, our average ratio of interest rate swaps outstanding to our average mortgage borrowings for the three and nine months ended September 30, 2018 was 65% and 68%, respectively, compared to 67% and 69%, respectively, for the prior year period.

***Net Interest Spread***

The following table presents a summary of our net interest spread (including the impact of TBA dollar roll income, interest rate swaps and excluding "catch-up" premium amortization) for the three and nine months ended September 30, 2018 and 2017:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended** | | | | **Nine Months Ended** | | |
|  |  | **September 30,** | | | | **September 30,** | | |
| **Investment and TBA Securities - Net Interest Spread** |  | **2018** |  | **2017** |  | **2018** |  | **2017** |
| Average asset yield, excluding "catch-up" premium amortization | | 3.18 % |  | 2.87 % |  | 3.05 % |  | 2.83 % |
| Average aggregate cost of funds | | (1.88)% |  | (1.46)% |  | (1.75)% |  | (1.34)% |
| Average net interest spread, excluding "catch-up" premium amortization | | 1.30 % |  | 1.41 % |  | 1.30 % |  | 1.49 % |
|  |  |  |  |  |  |  |  |  |

***Management Fee Income***

Management fee income increased by $42 million to $46 million and $54 million for the three and nine months ended September 30, 2018, respectively, from the prior year periods due to $42 million of termination fee income recognized due to the sale of MTGE, which closed during September 2018, and the corresponding termination of the Company's management agreement with MTGE.

***Operating Expense***

Operating expense increased by $27 million to $45 million for the three months ended September 30, 2018 and by $29 million to $81 million for nine months ended September 30, 2018 from the prior year periods due to the write-off of the remaining unamortized intangible asset associated with the Company's management agreement with MTGE of approximately $23 million and approximately $3 million of other expenses incurred associated with the termination of the management agreement.

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

The following table presents a summary of our net spread and dollar roll income, excluding estimated "catch-up" premium amortization, per diluted common share (a non-GAAP financial measure) and a reconciliation to our net interest income (the most comparable GAAP financial measure) for the three and nine months ended September 30, 2018 and 2017 (dollars in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended** | | | | |  | **Nine Months Ended** | | | |  |
|  |  | **September 30,** | | | | |  | **September 30,** | | | |  |
|  |  | **2018** |  |  | **2017** |  |  | **2018** |  |  | **2017** |  |
| Net interest income (GAAP measure) | $ | 188 |  | $ | 178 |  | $ | 590 |  | $ | 557 |  |
| TBA dollar roll income, net 1 |  | 68 |  |  | 87 |  |  | 200 |  |  | 251 |  |
| Interest rate swap periodic interest income (cost), net 1 |  | 56 |  |  | (26) |  |  | 88 |  |  | (106) |  |
| Dividend income from REIT equity securities 1 |  | 1 |  |  | — | |  | 3 |  |  | — |  |
| Adjusted net interest and dollar roll income |  | 313 |  |  | 239 |  |  | 881 |  |  | 702 |  |
| Other operating income (expense): |  |  |  |  |  |  |  |  |  |  |  |  |
| Management fee income |  | 46 |  |  | 4 |  |  | 54 |  |  | 12 |  |
| Less termination fee income from management agreement |  | (42) |  |  | — | |  | (42) |  |  | — |  |
| Operating expenses |  | (45) |  |  | (18) |  |  | (81) |  |  | (52) |  |
| Less non-recurring write-off of intangible asset and other expenses associated with |  |  |  |  |  |  |  |  |  |  |  |  |
| termination of management agreement |  | 26 |  |  | — | |  | 26 |  |  | — |  |
| Adjusted operating income (expense), net |  | (15) |  |  | (14) |  |  | (43) |  |  | (40) |  |
| Net spread and dollar roll income |  | 298 |  |  | 225 |  |  | 838 |  |  | 662 |  |
| Dividend on preferred stock |  | 9 |  |  | 9 |  |  | 27 |  |  | 23 |  |
| Net spread and dollar roll income available to common stockholders (non-GAAP measure) |  | 289 |  |  | 216 |  |  | 811 |  |  | 639 |  |
| Estimated "catch-up" premium amortization (benefit) cost due to change in CPR forecast |  | (6) |  |  | 12 |  |  | (39) |  |  | 34 |  |
| Net spread and dollar roll income, excluding "catch-up" premium amortization, available to | $ | 283 |  | $ | 228 |  | $ | 772 |  | $ | 673 |  |
| common stockholders (non-GAAP measure) |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Weighted average number of common shares outstanding - basic |  | 462.3 |  |  | 364.7 |  |  | 419.8 |  |  | 347.5 |  |
| Weighted average number of common shares outstanding - diluted |  | 462.7 |  |  | 364.9 |  |  | 420.1 |  |  | 347.6 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net spread and dollar roll income per common share - basic | $ | 0.63 |  | $ | 0.59 |  | $ | 1.93 |  | $ | 1.84 |  |
| Net spread and dollar roll income per common share - diluted | $ | 0.62 |  | $ | 0.59 |  | $ | 1.93 |  | $ | 1.84 |  |
| Net spread and dollar roll income, excluding "catch-up" premium amortization, per common |  |  |  |  |  |  |  |  |  |  |  |  |
| $ | 0.61 |  | $ | 0.63 |  | $ | 1.84 |  | $ | 1.94 |  |
| share - basic |  |  |  |  |
| Net spread and dollar roll income, excluding "catch-up" premium amortization, per common | $ | 0.61 |  | $ | 0.62 |  | $ | 1.84 |  | $ | 1.94 |  |
| share - diluted |  |  |  |  |



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

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***

The following table is a summary of our net gain (loss) on investment securities for the three and nine months ended September 30, 2018 and 2017 (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Three Months Ended** | | |  |  |  | **Nine Months Ended** | | | |  |
|  |  |  | **September 30,** | | |  |  |  | **September 30,** | | | |  |
| **Gain (Loss) on Investment Securities, Net 1** |  |  | **2018** |  | **2017** |  |  |  | **2018** |  |  | **2017** |  |
| Gain (loss) on sale of investment securities, net | | $ | (40) |  | $ | 22 |  | $ | (116) |  | $ | (47) |  |
| Unrealized gain (loss) on investment securities measured at fair value through net income, net 2 | |  | (363) |  |  | (31) |  |  | (980) |  |  | (6) |  |
| Unrealized gain (loss) on investment securities measured at fair value through other comprehensive income, net | |  | (193) |  |  | 90 |  |  | (959) |  |  | 257 |  |
| Total gain (loss) on investment securities, net | | $ | (596) |  | $ | 81 |  | $ | (2,055) |  | $ | 204 |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

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

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

The following table is a summary of our gain (loss) on derivative instruments and other securities, net for the three and nine months ended

September 30, 2018 and 2017 (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended** | | | | |  | **Nine Months Ended** | | | |
|  |  | **September 30,** | | | | |  | **September 30,** | | | |
|  |  | **2018** |  |  | **2017** |  |  | **2018** |  |  | **2017** |
| Interest rate swap periodic interest income (cost), net | $ | 56 |  | $ | (26) |  | $ | 88 |  | $ | (106) |
| Realized gain (loss) on derivative instruments and other securities, net: |  |  |  |  |  |  |  |  |  |  |  |
| TBA securities - dollar roll income, net |  | 68 |  |  | 87 |  |  | 200 |  |  | 251 |
| TBA securities - mark-to-market net gain (loss) |  | 26 |  |  | 84 |  |  | (514) |  |  | (14) |
| Payer swaptions |  | — | |  | — | |  | 36 |  |  | — |
| U.S. Treasury securities - long position |  | — | |  | — | |  | — | |  | 1 |
| U.S. Treasury securities - short position |  | (3) |  |  | (31) |  |  | (4) |  |  | (47) |
| U.S. Treasury futures - short position |  | (1) |  |  | (22) |  |  | 103 |  |  | (49) |
| Interest rate swaps - termination fees and variation margin settlements, net |  | 232 |  |  | 49 |  |  | 948 |  |  | 156 |
| REIT equity securities |  | 5 |  |  | — | |  | 7 |  |  | — |
| Other |  | — | |  | — | |  | — | |  | 2 |
| Total realized gain (loss) on derivative instruments and other securities, net |  | 327 |  |  | 167 |  |  | 776 |  |  | 300 |
| Unrealized gain (loss) on derivative instruments and other securities, net: |  |  |  |  |  |  |  |  |  |  |  |
| TBA securities - mark-to-market net gain (loss) |  | (150) |  |  | (13) |  |  | (48) |  |  | 123 |
| Interest rate swaps |  | (6) |  |  | (8) |  |  | 125 |  |  | (207) |
| Payer swaptions |  | 30 |  |  | (22) |  |  | 119 |  |  | (46) |
| U.S. Treasury securities - short position |  | 153 |  |  | 12 |  |  | 401 |  |  | (160) |
| U.S. Treasury futures - short position |  | 22 |  |  | 21 |  |  | 1 |  |  | 20 |
| REIT equity securities |  | (4) |  |  | — | |  | — | |  | — |
| Other |  | 2 |  |  | — | |  | 4 |  |  | (2) |
| Total unrealized gain (loss) on derivative instruments and other securities, net |  | 47 |  |  | (10) |  |  | 602 |  |  | (272) |
| Total gain (loss) on derivative instruments and other securities, net | $ | 430 |  | $ | 131 |  | $ | 1,466 |  | $ | (78) |
|  |  |  |  |  |  |  |  |  |  |  |  |

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

***Estimated Taxable Income***

For the three months ended September 30, 2018 and 2017, we had estimated taxable income available to common stockholders of $142 million and $42 million (or $0.31 and $0.12 per diluted common share), respectively. For the nine months ended September 30, 2018 and 2017, we had estimated taxable income available to common stockholders of $326 million and $118 million (or $0.78 and $0.34 per diluted common share), respectively. Income as determined under GAAP differs from income as determined under tax rules because of both temporary and permanent differences in income and expense recognition. The primary differences are (i) unrealized gains and losses on derivative instruments and other securities marked-to-market in current income for GAAP purposes, but excluded from taxable income until realized or settled, (ii) timing differences, both temporary and potentially permanent, in the recognition of certain realized gains and losses and (iii) temporary differences related to the amortization of premiums and discounts on investments. Furthermore, our estimated taxable income is subject to potential adjustments up to the time of filing our appropriate tax returns, which occurs after the end of our fiscal year. The following is a reconciliation of our GAAP net income to our estimated taxable income for the three and nine months ended September 30, 2018 and 2017 (dollars in millions, except per share amounts):

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|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended** | | | | |  | **Nine Months Ended** | | | |  |
|  |  | **September 30,** | | | | |  | **September 30,** | | | |  |
|  |  | **2018** |  |  | **2017** |  |  | **2018** |  |  | **2017** |  |
| Net income | $ | 216 |  | $ | 286 |  | $ | 933 |  | $ | 386 |  |
| Estimated book to tax differences: |  |  |  |  |  |  |  |  |  |  |  |  |
| Premium amortization, net |  | (21) |  |  | (3) |  |  | (66) |  |  | (2) |  |
| Realized gain/loss, net |  | (291) |  |  | (112) |  |  | (1,164) |  |  | (392) |  |
| Net capital loss/(utilization of net capital loss carryforward) |  | (67) |  |  | (159) |  |  | 287 |  |  | (115) |  |
| Unrealized gain/loss, net |  | 316 |  |  | 41 |  |  | 378 |  |  | 278 |  |
| Other |  | (2) |  |  | (2) |  |  | (15) |  |  | (14) |  |
| Total book to tax differences |  | (65) |  |  | (235) |  |  | (580) |  |  | (245) |  |
| Estimated REIT taxable income |  | 151 |  |  | 51 |  |  | 353 |  |  | 141 |  |
| Dividend on preferred stock |  | 9 |  |  | 9 |  |  | 27 |  |  | 23 |  |
| Estimated REIT taxable income available to common stockholders | $ | 142 |  | $ | 42 |  | $ | 326 |  | $ | 118 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Weighted average number of common shares outstanding - basic |  | 462.3 |  |  | 364.7 |  |  | 419.8 |  |  | 347.5 |  |
| Weighted average number of common shares outstanding - diluted |  | 462.7 |  |  | 364.9 |  |  | 420.1 |  |  | 347.6 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Estimated REIT taxable income per common share - basic and diluted | $ | 0.31 |  | $ | 0.12 |  | $ | 0.78 |  | $ | 0.34 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Beginning cumulative non-deductible net capital loss | $ | 711 |  | $ | 496 |  | $ | 357 |  | $ | 452 |  |
| Net capital loss / (utilization of net capital loss carryforward) |  | (67) |  |  | (159) |  |  | 287 |  |  | (115) |  |
| Ending cumulative non-deductible net capital loss 1 | $ | 644 |  | $ | 337 |  | $ | 644 |  | $ | 337 |  |
| Ending cumulative non-deductible net capital loss per ending common share | $ | 1.35 |  | $ | 0.86 |  | $ | 1.35 |  | $ | 0.86 |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |

1. Capital losses in excess of capital gains are not deductible from ordinary taxable income, but may be carried forward for up to five years and applied against future net capital gains. As of September 30, 2018, $0.4 B and $0.2 B of net capital losses were available through 2018 and 2023, respectively.

The following table summarizes dividends declared during the nine months ended September 30, 2018 and 2017:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | **Dividends Declared per Share** | | | | |  |  |
|  |  |  |  |  |  |  | |  |  | |  |  |
|  |  |  |  |  |  | **Series B Preferred** | |  | **Series C Preferred** | |  |  |
|  |  |  | **Series A Preferred** | | **Stock (Per Depositary** | | | **Stock (Per Depositary** | | |  |  |
| **Quarter Ended** | |  | **Stock** | |  | **Share)** | |  | **Share)** | |  | **Common Stock** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| March 31, 2018 | | $ | — | | $ | 0.484375 |  | $ | 0.43750 |  | $ | 0.54 |
| June 30, 2018 | |  | — | |  | 0.484375 |  |  | 0.43750 |  |  | 0.54 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| September 30, 2018 | |  | — | |  | 0.484375 |  |  | 0.43750 |  |  | 0.54 |
| Total | | $ | — |  | $ | 1.453125 |  | $ | 1.31250 |  | $ | 1.62 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| March 31, 2017 | | $ | 0.50000 |  | $ | 0.484375 |  | $ | — | | $ | 0.54 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| June 30, 2017 | |  | 0.50000 |  |  | 0.484375 |  |  | — | |  | 0.54 |
| September 30, 2017 | |  | 0.33300 |  |  | 0.484375 |  |  | 0.25764 |  |  | 0.54 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total | | $ | 1.33300 |  | $ | 1.453125 |  | $ | 0.25764 |  | $ | 1.62 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

**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

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for our continued qualification as a REIT. We currently expect to distribute 100% of our taxable income so that we are not subject to U.S. Federal and state corporate income taxes. Our REIT distribution requirement of at least 90% of our taxable income limits our ability to retain earnings and thereby replenish or increase capital from operations.

***Debt Capital***

As of September 30, 2018 and December 31, 2017, our mortgage borrowings consisted of the following (dollars in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **September 30, 2018** | | |  |  |  | **December 31, 2017** | | |  |  |
| **Mortgage Borrowings** |  |  | **Amount** |  | **%** |  |  |  | **Amount** |  |  | **%** |  |
| Repurchase agreements used to fund Agency RMBS 1 | | $ | 65,684 |  |  | 87% |  | $ | 50,296 |  |  | 75% |  |
| Debt of consolidated variable interest entities, at fair value | |  | 291 |  |  | —% | |  | 357 |  |  | 1% |  |
| Total debt | |  | 65,975 |  |  | 87% |  |  | 50,653 |  |  | 76% |  |
| Net TBA position, at cost | |  | 9,436 |  |  | 13% |  |  | 15,739 |  |  | 24% |  |
| Total mortgage borrowings | | $ | 75,411 |  |  | 100% |  | $ | 66,392 |  |  | 100% |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

1. Includes $35 million of repurchase agreements used to fund CRT securities and excludes $50 million of repurchase agreements used to fund U.S. Treasury securities as of September 30, 2018.

Our tangible net book value "at risk" leverage was 8.2x and 8.1x as of September 30, 2018 and December 31, 2017, 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 and other intangible asset and investments in REIT equity securities.

*Repurchase Agreements*

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

As of September 30, 2018, we had $65.7 billion of repurchase agreements outstanding used to fund acquisitions of investment securities with a weighted average interest rate of 2.30% and a weighted average remaining days-to-maturity of 67 days, compared $50.3 billion, 1.57% and 116 days, respectively, as of December 31, 2017.

To limit our counterparty exposure, we diversify our funding across multiple counterparties and by counterparty region. As of September 30, 2018, 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 September 30, 2018, $25.5 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 September 30, 2018. For further details regarding our borrowings under repurchase agreements as of September 30, 2018, please refer to Notes 5 and 7 to our Consolidated Financial Statements in this Form 10-Q.

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|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **September 30, 2018** | | |  |
|  |  | **Number of Counter-** | | **Percent of Agency** |  |
| **Counter-Party Region** |  | **RMBS Repurchase** |  |
| **Parties** |  | **Agreement Funding** |  |
| North America: | |  |  |  |  |
| FICC | | 1 |  | 37% |  |
| Other | | 26 |  | 42% |  |
| Total North America | | 27 |  | 79% |  |
| Europe | | 14 |  | 14% |  |
| Asia | | 5 |  | 7% |  |
| 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 the nine months ended September 30, 2018, haircuts on our pledged collateral remained stable and, as of September 30, 2018, our weighted average haircut was approximately 4.3% of the value of our collateral, inclusive of collateral funded through BES. As of September 30, 2018, our maximum amount at risk (or the amount of our repurchase liabilities in excess of the value of collateral pledged) 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 11% of our tangible stockholders' equity. As of September 30, 2018, approximately 8% 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 September 30, 2018, we had met all of our margin requirements and we had unrestricted cash and cash equivalents of $1.1 billion and unpledged securities of approximately $4.3 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

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swaptions, U.S. Treasury securities and U.S. Treasury futures contracts. Please refer to Notes 3 and 6 to our Consolidated Financial Statements in this Form 10-Q for further details regarding our use of derivative instruments.

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 September 30, 2018, our amount at risk with any counterparty related to our interest rate swap and swaption agreements was less than 1% of our stockholders' equity. In the case of centrally cleared derivative instruments, we could be exposed to credit risk if the exchange or a central clearing member defaults on its obligations. However, we believe that the risk is minimal due to initial and daily mark to market margin requirements, guarantee funds and other resources that are available in the event of a default.

*TBA Dollar Roll Transactions*

TBA dollar roll transactions used to finance the purchase of Agency RMBS represent a form of off-balance sheet financing accounted for as derivative instruments. (See Notes 3 and 6 to our Consolidated Financial Statements in this Form 10-Q additional details on of our TBA transactions). Under certain market conditions, it may be uneconomical for us to roll our TBA contracts into future months and we may need to take or make physical delivery of the underlying securities. If we were required to take physical delivery to settle a long TBA contract, we would have to fund our total purchase commitment with cash or other financing sources and our liquidity position could be negatively impacted. As of September 30, 2018, we had a net long TBA position with a total market value of $9.4 billion and a net carrying value of $(43) million recognized in derivative assets/(liabilities), at fair value, on our Consolidated Balance Sheets in this Form 10-Q.

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

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

***Bethesda Securities Regulatory Capital Requirements***

BES is subject to regulations of the securities business that include but are not limited to trade practices, capital structure, recordkeeping and conduct of directors, officers and employees. As a self-clearing registered broker-dealer, BES is required to maintain minimum net regulatory capital as defined by SEC Rule 15c3-1 (the "Rule"). As of September 30, 2018, the minimum net capital required was $0.3 million and BES had excess net capital of $378.1 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 the Securities Industry and Financial Markets Association ("SIFMA"). We may alternatively sell Agency securities that have more unique attributes on a specified basis when such securities trade at a premium over generic TBA securities or if the securities are not otherwise eligible for TBA delivery. Since the TBA market is the second most liquid market (after the U.S. Treasury market), maintaining a significant level of Agency securities eligible for TBA delivery enhances our liquidity profile and provides price support for our TBA eligible securities at or above generic TBA prices. As of September 30, 2018, approximately 92% 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

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time or on any particular terms. Furthermore, when the trading price of our common stock is significantly 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, subject to the provisions of a stock repurchase program in effect at such time.

**OFF-BALANCE SHEET ARRANGEMENTS**

As of September 30, 2018, 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 September 30, 2018, we had not guaranteed obligations of unconsolidated entities or entered into a commitment or intent to provide funding to such entities.

**FORWARD-LOOKING STATEMENTS**

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

**Item 3. *Quantitative and Qualitative Disclosures about Market Risk***

Market risk is the exposure to loss resulting from changes in market factors such as interest rates, foreign currency exchange rates, commodity prices and equity prices. The primary market risks that we are exposed to are interest rate, prepayment, spread, liquidity, extension and credit risk.

***Interest Rate Risk***

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

Interest rates are highly sensitive to many factors, including fiscal and monetary policies and domestic and international economic and political considerations, as well as other factors beyond our control. Subject to maintaining our qualification as a REIT, we engage in a variety of interest rate management techniques to mitigate the influence of interest rate changes on our net interest income and fluctuations of our tangible net asset 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 asset 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 our assets or our hedge portfolio that would be caused by a parallel change in short and long-term interest rates. The duration of our assets changes with 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.

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The table below quantifies the estimated changes in (i) net interest income (including interest rate swap periodic interest income /(cost) ); (ii) the fair value of our investment portfolio (including derivatives and other securities used for hedging purposes); and (iii) our tangible net book value per common share as of September 30, 2018 and December 31, 2017 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 changes in income and value 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 September 30, 2018 and December 31, 2017.

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**



|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Percentage Change in Projected** | | | | |  |
|  |  | **Net Interest** | | **Portfolio** | | **Tangible Net** |  |
| **Change in Interest Rate** |  | **Market** | | **Book** |  |
| **Income 2** |  | **Value 3,4** |  | **Value 3,5** |  |
| **As of September 30, 2018** | |  |  |  |  |  |  |
| -100 Basis Points | | +8.2% |  | +0.3% |  | +3.0% |  |
| -50 Basis Points | | +4.8% |  | +0.3% |  | +3.2% |  |
| +50 Basis Points | | -5.6% |  | -0.6% |  | -5.7% |  |
| +100 Basis Points | | -11.5% |  | -1.4% |  | -13.2% |  |
|  |  |  |  |  |  |  |  |
| **As of December 31, 2017** | |  |  |  |  |  |  |
| -100 Basis Points | | -10.4% |  | -1.0% |  | -9.1% |  |
| -50 Basis Points | | -3.9% |  | -0.2% |  | -1.9% |  |
| +50 Basis Points | | +0.4% |  | -0.2% |  | -2.0% |  |
| +100 Basis Points | | +0.2% |  | -0.7% |  | -6.6% |  |



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1. Interest rate sensitivity is 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. Represents the estimated dollar change in net interest income expressed as a percent of net interest income based on asset yields and cost of funds as of such date. It includes the effect of periodic interest cost / income on our interest rate swaps, but excludes costs associated with our forward starting swaps and other supplemental hedges, such as swaptions and U.S. Treasury securities. Amounts also exclude TBA dollar roll income/loss, which are accounted for as derivative instruments in accordance with GAAP. Base case scenario assumes interest rates and forecasted CPR of 6.8% and 8.4% as of September 30, 2018 and December 31, 2017, respectively. As of September 30, 2018, rate shock scenarios assume a forecasted CPR of 10%, 8%, 6% and 6% for the -100, -50, +50 and +100 basis points scenarios, respectively. As of December 31, 2017, rate shock scenarios assume a forecasted CPR of 13%, 10%, 7% and 7% for such scenarios, respectively. Estimated dollar change in net interest income does not include the impact of retroactive "catch-up" premium amortization adjustments due to changes in our forecasted CPR.
3. Includes the effect of derivatives and other securities used for hedging purposes.
4. Estimated dollar change in investment portfolio value expressed as a percent of the total fair value of our investment portfolio as of such date.
5. Estimated dollar change in portfolio value expressed as a percent of tangible stockholders' equity, net of the aggregate preferred stock liquidation preference, as of such date.

***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.

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***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.

***Spread Risk***

Spread risk is the risk that the market spread between the yield on our assets and the yield on benchmark interest rates linked to our interest rate hedges, such as U.S. Treasury rates and interest rate swap rates, may vary. The inherent spread risk associated with our investment securities and the resulting fluctuations in fair value of these securities can occur independent of interest rates and may relate to other factors impacting the mortgage and fixed income markets, such as actual or anticipated monetary policy actions by U.S. and foreign central banks, liquidity, or changes in required rates of return on different assets. Our strategies are generally not specifically designed to protect against spread risk, thus while we use interest rate swaps and other hedges to attempt to protect against moves in interest rates, our tangible net book value could decline if spreads widen.

The table below quantifies the estimated changes in the fair value of our assets, net of hedges, and our tangible net book value per common share as of September 30, 2018 and December 31, 2017 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 5.9 and 5.3 years as of September 30, 2018 and December 31, 2017, respectively, based on interest rates and prices as of such dates. However, our portfolio's sensitivity of mortgage spread changes will vary with changes in interest rates and in the size and composition of our portfolio. Therefore, actual results could differ materially from our estimates.

**Spread Sensitivity 1**



|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Percentage Change in Projected** | | |  |
|  |  | **Portfolio** | | **Tangible Net Book** |  |
| **Change in MBS Spread** |  | **Market** | |  |
| **Value 2,3** |  | **Value 2,4** |  |
| **As of September 30, 2018** | |  |  |  |  |
| -25 Basis Points | | +1.5% |  | +14.0% |  |
| -10 Basis Points | | +0.6% |  | +5.6% |  |
| +10 Basis Points | | -0.6% |  | -5.6% |  |
| +25 Basis Points | | -1.5% |  | -14.0% |  |
|  |  |  |  |  |  |
| **As of December 31, 2017** | |  |  |  |  |
| -25 Basis Points | | +1.3% |  | +12.6% |  |
| -10 Basis Points | | +0.5% |  | +5.0% |  |
| +10 Basis Points | | -0.5% |  | -5.0% |  |
| +25 Basis Points | | -1.3% |  | -12.6% |  |



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1. Spread sensitivity is derived from models that are dependent on inputs and assumptions provided by third parties, assumes there are no changes in interest rates and assumes a static portfolio. Actual results could differ materially from these estimates.
2. Includes the effect of derivatives and other securities used for hedging purposes.
3. Estimated dollar change in investment portfolio value expressed as a percent of the total fair value of our investment portfolio as of such date.
4. Estimated dollar change in portfolio value expressed as a percent of tangible stockholders' equity, net of the aggregate preferred stock liquidation preference, as of such date.

***Liquidity Risk***

Our liquidity risk principally arises from financing long-term fixed rate assets with shorter-term variable rate borrowings. As of September 30, 2018, we had unrestricted cash and cash equivalents of $1.1 billion and unpledged securities of approximately $4.3 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

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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***

We may not receive full repayment of principal, interest or other remuneration related to credit sensitive instruments, such as investments in CRT and non-Agency securities. We are also exposed to credit risk in the event our derivative counterparties do not perform under the terms of our derivative agreements or 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.

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

There is no guarantee that our efforts to manage credit risk will be successful and we could suffer losses if credit performance is worse than our expectations or our counterparties default on their obligations. Excluding amounts cleared through a central clearing exchange, as of September 30, 2018, 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 4. *Controls and Procedures***

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

We, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2018. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

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

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

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**PART II. OTHER INFORMATION**

**Item 1. *Legal Proceedings***

AGNC is named as a nominal defendant in certain stockholder derivative lawsuits filed against the Company and certain of our current and former directors and officers. There have been no material changes to such matters previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017 and our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018. We believe the claims in these lawsuits lack merit, and we expect that the defendants will vigorously defend them. See also "Loss Contingencies" in Note 3 to our Consolidated Financial Statements included in this Form 10-Q.

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

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

2017.

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

None.

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

None.

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

Not applicable.

**Item 5. *Other Information***

None.

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

(a) Exhibit Index

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

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

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

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

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

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

[\*4.1 Instruments defining the rights of holders of securities: See Article IV of our Amended and Restated Certificate of](http://www.sec.gov/Archives/edgar/data/1423689/000142368916000104/agncexhibit319301610-q.htm) [Incorporation, as amended, incorporated herein by reference to Exhibit 3.1 of Form 10-Q for the quarter ended September 30, 2016 (File](http://www.sec.gov/Archives/edgar/data/1423689/000142368916000104/agncexhibit319301610-q.htm) [No. 001-34057) filed November 7, 2016.](http://www.sec.gov/Archives/edgar/data/1423689/000142368916000104/agncexhibit319301610-q.htm)

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

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

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

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

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

[\*4.6Deposit Agreement relating to 7.750% Series B Cumulative Redeemable Preferred Stock, dated May 8, 2014, among](http://www.sec.gov/Archives/edgar/data/1423689/000142368914000026/exhibit42depositagreement.htm) [American Capital Agency Corp., Computershare Inc. and Computershare Trust Company, N.A., jointly as depositary, incorporated herein](http://www.sec.gov/Archives/edgar/data/1423689/000142368914000026/exhibit42depositagreement.htm) [by reference to Exhibit 4.2 of Form 8-K (File No. 001-34057), filed May 8, 2014.](http://www.sec.gov/Archives/edgar/data/1423689/000142368914000026/exhibit42depositagreement.htm)

[\*4.7 Form of Depositary Receipt representing 1/1,000th of a share of 7.750% Series B Cumulative Redeemable Preferred Stock](http://www.sec.gov/Archives/edgar/data/1423689/000142368914000026/exhibit42depositagreement.htm) [(included as part of Exhibit 4.6), incorporated herein by reference to Exhibit A of Exhibit 4.2 of Form 8-K (File No. 001-34057), filed May](http://www.sec.gov/Archives/edgar/data/1423689/000142368914000026/exhibit42depositagreement.htm) [8, 2014.](http://www.sec.gov/Archives/edgar/data/1423689/000142368914000026/exhibit42depositagreement.htm)

[\*4.8Deposit Agreement relating to 7.00% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, dated August](http://www.sec.gov/Archives/edgar/data/1423689/000142368917000049/depositagreement.htm) [22, 2017, among AGNC Investment Corp., Computershare Inc. and Computershare Trust Company, N.A., jointly as depositary,](http://www.sec.gov/Archives/edgar/data/1423689/000142368917000049/depositagreement.htm) [incorporated herein by reference to Exhibit 4.2 of Form 8-K (File No. 001-34057) filed August 22, 2017.](http://www.sec.gov/Archives/edgar/data/1423689/000142368917000049/depositagreement.htm)

[\*4.9 Form of Depositary Receipt representing 1/1,000th of a share of 7.00% Series C Fixed-to-Floating Rate Cumulative](http://www.sec.gov/Archives/edgar/data/1423689/000142368917000049/depositagreement.htm) [Redeemable Preferred Stock (included as part of Exhibit 4.8), incorporated herein by reference to Exhibit A of Exhibit 4.2 of Form 8-K](http://www.sec.gov/Archives/edgar/data/1423689/000142368917000049/depositagreement.htm) [(File No. 001-34057) filed August 22, 2017.](http://www.sec.gov/Archives/edgar/data/1423689/000142368917000049/depositagreement.htm)

* [10 Form of AGNC Investment Corp. 2016 Equity and Incentive Compensation Plan Deferred Stock Unit Agreement, filed](#page54)

[herewith.](#page54)

[31.1](#page58) [Certification of CEO Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.](#page58)

[31.2](#page59) [Certification of CFO Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.](#page59)

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32 [Certification of CEO and CFO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#page60)

101.INS\*\*

XBRL Instance 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
* Management contract or compensatory plan or arrangement
  1. Exhibits

See the exhibits filed herewith.

* 1. Additional financial statement schedules None.

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**SIGNATURES**

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

AGNC INVESTMENT CORP.

By: /s/ GARY D. KAIN



**Gary D. Kain**

**Chief Executive Officer and**

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

Date: November 5, 2018

/s/ BERNICE E. BELL



**Bernice E. Bell**

**Senior Vice President and Chief Financial Officer**

**(Principal Financial Officer)**

Date: November 5, 2018

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Exhibit 10

**AGNC INVESTMENT CORP.**

**2016 EQUITY AND INCENTIVE COMPENSATION PLAN**

**DEFERRED STOCK UNIT AGREEMENT**

This DEFERRED STOCK UNIT AGREEMENT (this “Agreement”) is entered into as of **[\_\_\_\_\_\_\_\_\_\_\_\_ \_\_]**, 2018

(the “Date of Grant”), by and between AGNC Investment Corp., a Delaware corporation (the “Company”), and **[\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_]** (“Grantee”).

1. **Certain Definitions**. Capitalized terms used, but not otherwise defined, in this Agreement will have the meanings given tosuch terms in the Company’s 2016 Equity and Incentive Compensation Plan (the “Plan”). As used in this Agreement:
2. “Manager” means AGNC Mortgage Management, LLC.

“PIP” means the AGNC Mortgage Management, LLC Performance Incentive Plan - MTGE.

1. **Grant of DSUs; Express Consent of Grantee**. In full satisfaction and conversion of Manager’s obligations under the PIPfor Grantee’s outstanding awards under the PIP that have been deferred by Grantee and as subject to and upon the terms, conditions and restrictions set forth in this Agreement and in the Plan, the Company hereby grants to Grantee **[\_\_\_\_\_]** Deferred Stock Units (the “DSUs”) pursuant to Section 9 of the Plan. Each DSU shall represent the right of Grantee to receive one share of Common Stock subject to and upon the terms and conditions of this Agreement. By signing this Agreement below, the Grantee agrees to the terms of the Agreement, including that the DSUs granted hereunder shall replace the Grantee’s PIP award(s) in full, with the number of DSUs granted above based on the value of Grantee’s PIP award(s) immediately prior to the grant of DSUs, and Grantee and hereby expressly agrees and consents to such termination of the PIP award(s) and grant of these DSUs in connection therewith.
2. **Restrictions on Transfer of DSUs**. Neither the DSUs evidenced hereby nor any interest therein or in the shares ofCommon Stock underlying such DSUs shall be transferable prior to payment to Grantee pursuant to Section 5 hereof, other than as described in Section 15 of the Plan.
3. **DSUs Fully Vested.** Because all vesting restrictions in the Grantee’s outstanding PIP awards have been waived by theManager and the Company, the DSUs (which are granted in conversion and replacement of such PIP award(s)) are fully-vested and non-forfeitable.
4. **Form and Time of Payment of DSUs**. Payment in respect of the DSUs shall be made in compliance with Section 409Aof the Code in the form of shares of Common Stock on the date(s) set forth in Grantee’s existing deferral election form attached as Exhibit A and, as applicable, the PIP. Payment shall only be made in whole shares of Common Stock; any fractional shares shall be paid to Grantee in cash. The Company’s obligations to Grantee with respect to the DSUs will be satisfied in full upon the issuance of the shares of Common Stock (or, with respect to fractional shares, upon the payment in cash) corresponding to such DSUs.
5. **Dividend Equivalents; Other Rights**.
   1. From and after the Date of Grant and until the DSUs are paid to Grantee in accordance with Section 5 hereof, on the date that the Company pays a cash dividend (if any) or other cash distribution to holders of shares of Common Stock generally, Grantee shall be entitled to a number of additional DSUs determined by dividing (A) the product of (x) the dollar amount of such cash dividend or other cash distribution paid per share of Common Stock on such date and (y) the total number of DSUs (including dividend equivalents credited thereon) previously credited to Grantee pursuant to this Agreement as of such date, to the extent such DSUs have not been paid to Grantee in accordance with Section 5 hereof, by (B) the Market Value per Share on such date. Such dividend equivalents (if any)

shall be subject to the same applicable terms and conditions (including dividend equivalents and payment) as apply to the DSUs as to which the dividend equivalents were credited.

* 1. Grantee shall have no rights of ownership in the shares of Common Stock underlying the DSUs and no right to vote the shares of Common Stock underlying the DSUs until the date on which the shares of Common Stock underlying the DSUs are issued or transferred to Grantee pursuant to Section 5 hereof.
  2. The obligations of the Company under this Agreement will be merely that of an unfunded and unsecured promise of the Company to deliver shares of Common Stock or pay cash in the future, and the rights of Grantee will be no greater than that of an unsecured general creditor. No assets of the Company will be held or set aside as security for the obligations of the Company under this Agreement.

1. **No Right to Future Awards or Employment**. The grant of the DSUs under this Agreement to Grantee is a voluntary,discretionary award being made on a one-time basis and it does not constitute a commitment to make any future awards. The grant of the DSUs and any payments made hereunder will not be considered salary or other compensation for purposes of any severance pay or similar allowance, except as otherwise required by law. Nothing contained in this Agreement shall confer upon Grantee any right to be employed or remain employed by the Company or any of its Subsidiaries, nor limit or affect in any manner the right of the Company or any of its Subsidiaries to terminate the employment or adjust the compensation of Grantee.
2. **Adjustments**. The number of shares of Common Stock issuable for each DSU and the other terms and conditions of thegrant evidenced by this Agreement are subject to adjustment as provided in Section 11 of the Plan.
3. **Withholding Taxes**. To the extent that the Company is required to withhold federal, state, local or foreign taxes or otheramounts in connection with the delivery to Grantee of shares of Common Stock or any other payment to Grantee or any other payment or vesting event under this Agreement, and the amounts available to the Company for such withholding are insufficient, it shall be a condition to the obligation of the Company to make any such delivery or payment that Grantee make arrangements satisfactory to the Company for payment of, the balance of such taxes or other amounts required to be withheld, as described more fully below. The Company shall satisfy such withholding requirement by retaining a portion of the shares of Common Stock to be delivered to Grantee. With prior approval by the Committee, Grantee may elect that all or any part of such withholding requirement be satisfied by other means, including by delivering to the Company other shares of Common Stock held by Grantee (or proceeds from the sale thereof) or cash. Any shares of Common Stock used for withholding hereunder will be valued at an amount equal to the Market Value per Share of such shares of Common Stock on the date of payment pursuant to Section 5 hereof. In no event will the amount that is withheld pursuant to this Section 9 to satisfy applicable withholding taxes exceed the maximum statutory tax rates applicable with respect to Grantee. For purposes of clarity, any FICA obligations due upon vesting of the deferred PIP award(s) prior to the grant of these DSUs were to be satisfied through payroll deductions pursuant to the terms of Grantee’s completed deferral election form(s).
4. **Compliance With Law**. The Company shall make reasonable efforts to comply with all applicable federal and statesecurities laws; provided, however, notwithstanding any other provision of the Plan and this Agreement, the Company shall not be obligated to issue any of the shares of Common Stock pursuant to this Agreement if the issuance thereof would result in a violation of any such law.
5. **Relation to Other Benefits**. Any economic or other benefit to Grantee under this Agreement or the Plan shall not betaken into account in determining any benefits to which Grantee may be entitled under any profit-sharing, retirement or other benefit or compensation plan maintained by the Company or any of its Subsidiaries (or any of their successors) and shall not affect the amount of any life insurance coverage available to any beneficiary under any life insurance plan covering employees of the Company or any of its Subsidiaries (or any of their successors).

1. **Amendments**. Any amendment to the Plan shall be deemed to be an amendment to this Agreement to the extent that theamendment is applicable hereto; provided, however, that (a) no amendment shall adversely affect the rights of Grantee under this Agreement without Grantee’s written consent and (b) Grantee’s consent shall not be required to an amendment that is deemed necessary by the Company to ensure exemption from or compliance with Section 409A of the Code or Section 10D of the Exchange Act and any applicable rules or regulations promulgated by the Securities Exchange Commission or any national securities exchange or national securities association on which the Common Stock may be traded.
2. **Severability**. In the event that one or more of the provisions of this Agreement shall be invalidated for any reason by acourt of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.
3. **Relation to Plan**. This Agreement is subject to the terms and conditions of the Plan. To the extent not expressly set forthin this Agreement, the terms of the Plan shall govern.
4. **Acknowledgement**. Grantee acknowledges that Grantee (a) has received a copy of the Plan, (b) has had an opportunity toreview the terms of this Agreement and the Plan, (c) understands the terms and conditions of this Agreement and the Plan and

(d) agrees to such terms and conditions.

1. **Successors and Assigns**. Without limiting Section 3 hereof, the provisions of this Agreement shall inure to the benefit of,and be binding upon, the successors, administrators, heirs, legal representatives and assigns of Grantee, and the successors and assigns of the Company.
2. **Governing Law**. This Agreement shall be governed by and construed in accordance with the internal substantive laws ofthe State of Delaware, without giving effect to any principle of law that would result in the application of the law of any other jurisdiction.
3. **Notices**. Any notice to the Company provided for herein shall be in writing (including electronically) to the Company,marked Attention: General Counsel, and any notice to Grantee shall be addressed to Grantee at Grantee’s address on file with the Company at the time of such notice. Except as otherwise provided herein, any written notice shall be deemed to be duly given if and when delivered personally or deposited in the United States mail, postage and fees prepaid, and addressed as aforesaid. Any party may change the address to which notices are to be given hereunder by written notice to the other party as herein specified (provided that for this purpose any mailed notice shall be deemed given on the third business day following deposit of the same in the United States mail).
4. **Electronic Delivery**. The Company may, in its sole discretion, deliver any documents related to the DSUs and Grantee’sparticipation in the Plan, or future awards that may be granted under the Plan, by electronic means. Grantee hereby consents to receive such documents by electronic delivery and, if requested, agrees to participate in the Plan through an online or electronic system established and maintained by the Company or another third party designated by the Company.
5. **Section 409A of the Code**. To the extent applicable, it is intended that this Agreement and the Plan comply with or beexempt from the provisions of Section 409A of the Code. This Agreement and the Plan shall be administered in a manner consistent with this intent, and any provision that would cause this Agreement or the Plan to fail to comply with or be exempt from Section 409A of the Code shall have no force or effect until amended to comply with or be exempt from Section 409A of the Code (which amendment may be retroactive to the extent permitted by Section 409A of the Code and may be made by the Company without the consent of Grantee). Any reference in this Agreement to Section 409A of the Code will also include any proposed, temporary or final regulations, or any other guidance, promulgated with respect to such Section by the U.S. Department of the Treasury or the Internal Revenue Service.
6. **Counterparts**. This Agreement may be executed in one or more counterparts (including facsimile and other

electronically transmitted counterparts), each of which shall be deemed to be an original but all of which together will constitute one and the same agreement.

**[SIGNATURES ON FOLLOWING PAGE]**

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed on its behalf by its duly authorized officer and Grantee has executed this Agreement and consents to the accompanying termination of Grantee’s PIP award(s), each as of the Date of Grant.

**AGNC INVESTMENT CORP.**

By:



Name:

Title:

GRANTEE’S SIGNATURE

Print Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Exhibit 31.1

**AGNC Investment Corp.**

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

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

I, Gary D. Kain, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AGNC Investment Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   1. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   2. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   3. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   4. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
   1. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   2. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2018

/s/ GARY D. KAIN



Gary D. Kain

Chief Executive Officer and Chief Investment

Officer (Principal Executive Officer)

Exhibit 31.2

**AGNC Investment Corp.**

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

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

I, Bernice E. Bell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AGNC Investment Corp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   1. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entitles, particularly during the period in which this report is being prepared;
   2. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   3. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   4. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
   1. All significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   2. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2018

/s/ BERNICE E. BELL



Bernice E. Bell

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

Exhibit 32

**AGNC Investment Corp.**

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

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

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

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

1. The Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2018 (the “Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

|  |  |  |  |
| --- | --- | --- | --- |
|  | /s/ | GARY D. KAIN |  |
| Name: |  | |  |
| Gary D. Kain | |  |
| Title: | Chief Executive Officer and | |  |
|  | Chief Investment Officer (Principal Executive Officer) | |  |
| Date: | November 5, 2018 | |  |
|  | /s/ | BERNICE E. BELL |  |
| Name: |  | |  |
| Bernice E. Bell | |  |
| Title: | Senior Vice President and | |  |
|  | Chief Financial Officer (Principal Financial Officer) | |  |
| Date: | November 5, 2018 | |  |

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