

AGNC Investment Corp.
Form 10-K
February 27, 2017

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the year ended December 31, 2016

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 (I.R.S. Employer
Incorporation or Organization) 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)

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

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	The NASDAQ Global Select Market
8.000% Series A Cumulative Redeemable Preferred Stock	The NASDAQ Global Select Market
7.750% Series B Cumulative Redeemable Preferred Stock	The NASDAQ Global Select Market

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

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Non-accelerated filer (Do not check if a smaller reporting company) Smaller Reporting Company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of June 30, 2016, the aggregate market value of the Registrant's common stock held by non-affiliates of the Registrant was approximately \$5.5 billion based upon the closing price of the Registrant's common stock of \$19.82 per share as reported on The NASDAQ Global Select Market on that date. (For this computation, the Registrant has excluded the market value of all shares of its common stock reported as beneficially owned by executive officers and directors of the Registrant and certain other stockholders; such an exclusion shall not be deemed to constitute an admission that any such person is an "affiliate" of the Registrant.)

The number of shares of the issuer's common stock outstanding as of January 31, 2017 was 331,046,077.

DOCUMENTS INCORPORATED BY REFERENCE. The Registrant's definitive proxy statement for the 2017 Annual Meeting of Stockholders is incorporated by reference into certain sections of Part III herein.

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

AGNC INVESTMENT CORP.
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PART I.

Item 1. Business

AGNC Investment Corp. ("AGNC," the "Company," "we," "us" and "our") was organized on January 7, 2008 and commenced operations on May 20, 2008 following the completion of our initial public offering. Our common stock is traded on The NASDAQ Global Select Market under the symbol "AGNC."

We operate so as 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 such, we are required to distribute annually 90% of our taxable net income. As long as we qualify as a REIT, we will generally not be subject to U.S. federal or state corporate taxes on our taxable net income to the extent that we distribute all of our annual taxable net income to our stockholders. It is our intention to distribute 100% of our taxable net income, after application of available tax attributes, within the 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 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"), or by a U.S. Government agency, such as the Government National Mortgage Association ("Ginnie Mae") (collectively referred to as "GSEs"). 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 dividend distributions and net asset value (also referred to as "net book value," "NAV" and "stockholders' equity") accretion. We fund our investments primarily through short-term borrowings structured as repurchase agreements.

Investment Strategy

Our investment strategy is designed to:

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

Targeted Investments

Agency Securities

Agency Residential Mortgage-Backed Securities ("Agency RMBS"). Our primary investments consist of Agency pass-through certificates representing interests in "pools" of mortgage loans secured by residential real property.

Monthly payments of principal and interest made by the individual borrowers on the mortgage loans that underlie the securities, which are guaranteed by a GSE to holders of the securities, are in effect "passed through," net of fees paid to the issuer/guarantor and servicers of the securities, to the holders of the securities. In general, mortgage pass-through certificates distribute cash flows from the underlying collateral on a pro rata basis among the holders of the securities. Holders of the securities also receive guarantor advances of principal and interest for delinquent loans in the mortgage pools. We also invest in Agency collateralized mortgage obligations ("CMOs"), which are structured instruments representing interests in Agency residential pass-through certificates, and interest-only, inverse interest-only and principal-only securities, which represent the right to receive a specified proportion of the contractual interest or principal flows of specific Agency CMO securities.

• To-Be-Announced Forward Contracts ("TBAs"). TBAs are forward contracts to purchase or sell Agency RMBS. TBA contracts specify the coupon rate, issuer, term and face value of the bonds to be delivered, with the actual bonds to be

delivered only identified shortly before the TBA settlement date.

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Non-Agency Securities

Credit Risk Transfer Securities ("CRT"). CRT securities are risk sharing instruments that transfer a portion of the risk associated with credit losses within pools of conventional residential mortgage loans from the GSEs and/or third parties to private investors, such as us. Unlike Agency RMBS, full repayment of the original principal balance of CRT securities is not guaranteed by a GSE or other third party; rather, "credit risk transfer" is achieved by writing down the outstanding principal balance of the CRT securities if credit losses on the related pool of loans exceed certain thresholds. By reducing the amount that issuers are obligated to repay to holders of CRT securities, the issuers of CRT securities are able to offset credit losses on the related pool of loans.

Non-Agency Residential Mortgage-Backed Securities ("Non-Agency RMBS"). Non-Agency RMBS are securities backed by residential mortgages, for which payment of principal and interest is not guaranteed by a GSE or government agency. Instead, a private institution such as a commercial bank will package residential mortgage loans and securitize them through the issuance of RMBS. Non-Agency RMBS are often referred to as private label RMBS. Non-Agency RMBS may benefit from credit enhancement derived from structural elements, such as subordination, overcollateralization or insurance. We may purchase highly-rated instruments that benefit from credit enhancement or non-investment grade instruments that absorb credit risk. We focus primarily on non-Agency securities where the underlying mortgages are secured by residential properties within the United States. Residential non-Agency securities are backed by residential mortgages that can be comprised of prime mortgage or nonprime mortgage loans. We may also purchase Agency or non-Agency multifamily securities where the collateral backing the securitization consists in whole or in part of loans to properties housing multiple tenants.

Commercial Mortgage-Backed Securities ("CMBS"). CMBS are securities that are structured utilizing collateral pools comprised of commercial mortgage loans. CMBS can be structured as pass-through securities, where the cash flows generated by the collateral pool are passed on pro rata to investors after netting servicer or other fees, or where cash flows are distributed to numerous classes of securities following a predetermined waterfall, which may give priority to selected classes while subordinating other classes. We may invest across the capital structure of these securities, and we intend to focus on CMBS where the underlying collateral is secured by commercial properties located within the United States.

Active Portfolio Management Strategy

We employ an active management strategy designed to achieve our principal objectives of generating attractive risk-adjusted returns and managing our net asset value within reasonable bands. We invest in securities based on our assessment of the relative risk-return profile of the securities and our ability to effectively hedge a portion of the securities' exposure to market risks. The composition of our portfolio and strategies that we use will vary based on our view of prevailing market conditions and the availability of suitable investment, hedging and funding opportunities. We may experience investment gains or losses when we sell securities that we believe no longer provide attractive risk-adjusted returns or when we believe more attractive alternatives are available elsewhere in the mortgage or mortgage-related securities market, or when we believe it is prudent to reduce aggregate exposure or a particular type of risk embedded in the portfolio. We may also experience gains or losses as a result of our hedging strategies or due to credit losses on our non-Agency securities.

Financing Strategy

As part of our investment strategy, we leverage our investment portfolio to increase potential returns to our stockholders. Our primary source of financing is through repurchase agreements. A repurchase agreement transaction acts as a financing arrangement under which we effectively pledge our investment securities as collateral to secure a loan. Our borrowings pursuant to these repurchase transactions generally have maturities ranging from 30 days to one year, but may have maturities less than 30 days or up to five or more years. Under our repurchase agreements, our financing rate typically tracks short term rates such as one, three or six month London Interbank Offered Rate ("LIBOR"), plus or minus a fixed spread.

Our leverage varies depending on market conditions, our assessment of risk and returns and our ability to continue to borrow funds sufficient to fund acquisitions of mortgage securities. We generally expect our leverage to be within six to eleven 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 seek to diversify our funding exposure by entering into repurchase agreements with multiple counterparties. We had master repurchase agreements with 38 financial institutions as of December 31, 2016. The terms of our master repurchase agreements generally conform to the terms in the standard master repurchase agreement as published by the Securities Industry and Financial Markets Association ("SIFMA") as to repayment, margin requirements and the segregation of all securities sold under the repurchase transaction. In addition, each lender may require that we include supplemental terms and conditions to the

standard master repurchase agreement. Typical supplemental terms and conditions include changes to the margin maintenance requirements, purchase price maintenance requirements, requirements that all controversies related to the repurchase agreement be litigated in a particular jurisdiction and cross default provisions. These provisions may differ for each lender and certain of these terms may not be determined until we engage in a specific repurchase transaction. We may also obtain other sources of financing depending on market conditions. We may finance the acquisition of Agency RMBS by entering into TBA dollar roll transactions in which we would sell a TBA contract for current month settlement and simultaneously purchase a similar TBA contract for a forward settlement date. Prior to the forward settlement date, we may choose to roll the position out to a later date by entering into an offsetting TBA position, net settling the paired off positions for cash, and simultaneously entering into a similar TBA contract for a later settlement date. In such transactions, the TBA contract purchased for a forward settlement date is priced at a discount to the TBA contract sold for settlement/pair off in the current month. This difference (or discount) is referred to as the "price drop." The price drop is the economic equivalent of net interest carry income on the underlying Agency RMBS over the roll period (interest income less implied financing cost) and is commonly referred to as "dollar roll income." Consequently, dollar roll transactions represent a form of off-balance sheet financing. In evaluating our overall leverage at risk, we consider both our on-balance sheet and off-balance sheet financing.

During 2015, we formed a wholly-owned captive broker-dealer subsidiary, Bethesda Securities, LLC ("BES"). BES became operational and received final membership approval to the Fixed Income Clearing Corporation ("FICC") during the third quarter of 2016. BES has direct access to bilateral and triparty funding as a Financial Industry Regulatory Authority ("FINRA") member broker-dealer. As an eligible institution, BES also raises funds through the General Collateral Finance Repo service offered by the FICC, with the FICC acting as the central counterparty, and thus provides us greater depth and diversity of repurchase agreement funding while also lowering our funding cost and limiting our counterparty exposure.

Risk Management Strategy

We use a variety of strategies to reduce our exposure to market risks, including interest rate, prepayment, extension and credit risks. Our investment strategies take into account our assessment of these risks, the cost of the hedging transactions and our intention to qualify as a REIT. Our hedging strategies are generally not designed to protect our net asset value from "spread risk" (also referred to as "basis risk"), which is the risk that the yield differential between our investments and our hedges fluctuates. In addition, while we use interest rate swaps and other supplemental hedges to attempt to protect our net asset value against moves in interest rates, we may not hedge certain interest rate, prepayment or extension risks if we believe that bearing such risks enhances our return profile, or if the hedging transaction would negatively impact our REIT status.

Interest Rate Risk. We hedge a portion of our exposure to interest rate mismatches between the interest we earn on our longer term investments and the interest we pay on our shorter term borrowings. Because a majority of our funding is in the form of repurchase agreements, our financing costs fluctuate based on short-term interest rate indices, such as LIBOR. Because our investments are assets that primarily have fixed rates of interest and could mature in up to 40 years, the interest we earn on those assets generally does not move in tandem with the interest that we pay on our repurchase agreements; therefore, we may experience reduced income or losses due to adverse interest rate movements. In order to attempt to mitigate a portion of such risk, we utilize certain hedging techniques to attempt to lock in a portion of the net interest spread between the interest we earn on our assets and the interest we pay on our financing costs.

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

changes.

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

Prepayment Risk. Because residential borrowers have the option to prepay their mortgage loans at par at any time, we face the risk that we will experience a return of principal on our investments faster than anticipated. Prepayment risk generally increases when interest rates decline. In this scenario, our financial results may be adversely affected as we may have to invest that principal at potentially lower yields.

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Extension Risk. Because residential borrowers have the option to make only scheduled payments on their mortgage loans, rather than prepay their mortgage loans, we face the risk that a return of capital on our investment will occur slower than anticipated. Extension risk generally increases when interest rates rise. In this scenario, our financial results may be adversely affected as we may have to finance our investments at potentially higher costs without the ability to reinvest principal into higher yielding securities because the rate at which borrowers refinance their mortgages, sell the property collateralizing the mortgage, or otherwise pay incremental principal payments occurs at a slower pace than was originally expected.

Spread Risk. Because the market spread between the yield on our investments and the yield on benchmark interest rates, such as U.S. Treasury rates and interest rate swap rates, may vary, we are exposed to spread risk. 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 the Federal Reserve (the "Fed"), liquidity, or changes in required rates of return on different assets. Our strategies are generally not designed to protect our net asset value from spread risk.

Credit Risk. We accept mortgage credit exposure related to our non-Agency securities at levels we deem to be prudent within the context of our overall investment strategy. Therefore, we may retain all or a portion of the credit risk on the loans underlying our non-Agency securities. We seek 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 percentage mix of our Agency and non-Agency mortgage investments or our duration gap, when we believe credit performance is inversely correlated with changes in interest rates, in an effort to actively adjust our credit exposure and/or to improve the return profile of our investment portfolio.

The principal instruments that we use to hedge a portion of our exposure to interest rate, prepayment and extension risks are interest rate swaps and options to enter into interest rate swaps ("interest rate swaptions"). We also utilize forward contracts for the purchase or sale of Agency RMBS securities in the TBA market on a generic pool basis and U.S. Treasury securities and U.S. Treasury futures contracts, primarily through short sales. We may also purchase or write put or call options on TBA securities and invest in mortgage and other types of derivative instruments, such as interest and principal-only securities.

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

Income from hedging transactions that we enter into to manage risk may not constitute qualifying gross income under one or both of the gross income tests applicable to REITs (see "Real Estate Investment Trust Requirements").

Therefore, we may have to limit our use of certain hedging techniques, which could expose us to greater risks than we would otherwise want to bear, or implement those hedging techniques through a taxable REIT subsidiary ("TRS"). Implementing our hedges through a TRS could increase the cost of our hedging activities because a TRS would be subject to tax on income and gains.

Management Internalization

Prior to July 1, 2016, we were externally managed by AGNC Management, LLC (our "Manager," formerly known as American Capital AGNC Management, LLC). On July 1, 2016, we completed the acquisition of AGNC Mortgage Management, LLC ("AMM," formerly known as American Capital Mortgage Management, LLC), the parent company of our Manager, from American Capital Asset Management, LLC ("ACAM"), a wholly owned portfolio company of American Capital, Ltd. ("ACAS"), for a purchase price of \$562 million in cash. AMM is also the parent company of MTGE Management, LLC ("MTGE Manager," formerly known as American Capital MTGE

Management, LLC), the external manager of MTGE Investment Corp. ("MTGE," formerly known as American Capital Mortgage Investment Corp.).

Prior to our management internalization, we paid our Manager a management fee payable monthly in arrears in an amount equal to one-twelfth of 1.25% of our month-end stockholders' equity, adjusted to exclude the effect of any unrealized gains or losses included in either retained earnings or accumulated OCI, each as computed in accordance with GAAP, and were obligated to reimburse our Manager for its expenses incurred directly related to our operations, excluding employment-related expenses of our Manager's officers and employees and any American Capital employees who provided services to us pursuant to the management agreement. There was no incentive compensation payable to our Manager pursuant to the management agreement. Following the internalization of our manager, we no longer incur a management fee, but we incur expenses associated with being an internally managed organization, including compensation expense previously borne by our Manager. If we had elected to cancel the

management contract without cause, we would have been obligated to pay management fees through our existing renewal term (plus an additional one year period if we had not provided notice of non-renewal at least 180-days prior to the completion of the then current renewal term) and a termination fee equal to three times our average annual management during the preceding 24-month period. We would have also been precluded from hiring any of the employees for a two year period following termination who had worked for ACAS or any of its affiliates, including our Manager, at any point over the prior two year period.

Employees

As of December 31, 2016, we had 54 full-time employees.

Exemption from Regulation under the Investment Company Act

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

Real Estate Investment Trust Requirements

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

Income Tests

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

1. At least 75% of our gross income for each taxable year generally must be derived from investments in real property or mortgages on real property.

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

Interest income constitutes qualifying mortgage interest for purposes of the 75% gross income test described above to the extent that the obligation upon which such interest is paid is secured by a mortgage on real property. We expect that substantially all of our income from our Agency and non-Agency MBS will continue to be qualifying income for purposes of the 75% gross income test. Income from CRT securities is treated as non-qualifying income for the 75% gross income test, which potentially limits our ability to invest in CRT securities. There is no direct authority with respect to the qualification of income or gains from TBAs as gains from the sale of real estate assets or other qualifying income for purposes of the 75% gross income test. We treat gains from TBAs as qualifying income for purposes of the 75% gross income test and we treat TBAs as qualifying assets for purposes of the 75% asset test described below based on an opinion of legal counsel. Income and gains that we derive from instruments that we use to hedge the interest rate risk associated with our borrowings incurred to acquire real estate assets will generally be excluded from both the numerator and the denominator for purposes of the 75% and 95% gross income test, provided

that specified requirements are met.

Asset Tests

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

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At least 75% of the value of our total assets must be represented by some combination of "real estate assets," cash, cash items, U.S. Government securities, and, under some circumstances, temporary investments in stock or debt instruments purchased with new capital. For this purpose, mortgage-backed securities and mortgage loans are generally treated as "real estate assets." Assets that do not qualify for purposes of the 75% asset test are subject to the additional asset tests described below.

2. The value of any one issuer's securities that we own may not exceed 5% of the value of our total assets.

We may not own more than 10% of any one issuer's outstanding securities, as measured by either voting power or value. The 5% and 10% asset tests do not apply to securities of TRSs and qualified REIT subsidiaries and the 10% asset test does not apply to "straight debt" having specified characteristics and to certain other securities.

4. The aggregate value of all securities of all TRSs that we hold may not exceed 25% of the value of our total assets. (For tax years beginning after December 31, 2017, the limit is reduced to 20% of the value of total assets.)

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

Corporate Information

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

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

Competition

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

Item 1A. Risk Factors

You should carefully consider the risks described below and all other information contained in this Annual Report on Form 10-K, including our annual consolidated financial statements and the related notes thereto before making a decision to purchase our securities. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us, or not presently deemed material by us, may also impair our operations and performance.

If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected. If that happens, the trading price of our securities could decline, and you may lose all or part of your investment.

Risks Related to Our Investing, Portfolio Management and Financing Activities

An increase in our borrowing costs would adversely affect our financial condition and results of operations.

Our borrowing costs may increase for a number of reasons, including increases in short-term interest rates, the "haircut" applied to our assets under repurchase agreements, interest rate volatility, decreases in the value of our assets or availability of financing generally. An increase in our borrowing costs will reduce the difference, or spread, that we may earn between the yields on the investments we make and the borrowings we use to finance such investments. Moreover, due to the short-term or adjustable rate nature of the majority of our repurchase agreements used to finance our investments, our borrowing costs are particularly sensitive to increases in short-term interest rates as well as other factors. It is possible that due to higher borrowing costs, the spread on investments could be reduced to a point at which the profitability from investments would be significantly reduced or eliminated. This would adversely affect the returns on our assets, financial condition and results of operations and could require us to liquidate certain or all of our assets.

Changes to the pace of reinvestment of paydowns or sales of Agency mortgage-backed securities by the Federal Reserve may adversely affect the price and return associated with Agency securities.

In October 2014, the Federal Reserve ended its large scale asset purchases under quantitative easing programs designed to support the mortgage markets and stimulate the economy. The Federal Reserve currently reinvests all principal payments from its U.S. Treasury, Agency debt and Agency RMBS portfolios acquired as a function of its quantitative easing programs, thereby holding the nominal size of the securities it holds in each of these portfolios largely unchanged. In previous statements, members of the Federal Open Market Committee (FOMC) of the Federal Reserve have indicated that full reinvestment of the securities portfolio would continue until "normalization of the level of the federal funds rate is well under way"; therefore, it is difficult to predict when and at what pace the Federal Reserve will end reinvestments of principal payments. We also cannot predict the impact that this or other actions could have on the prices and liquidity of Agency RMBS or on mortgage spreads relative to interest rate hedges tied to benchmark interest rates. During periods in which the Federal Reserve reduces or ceases reinvestment of principal or undertakes outright sales of its securities portfolio, the price of Agency RMBS and U.S. Treasury securities will likely decline, mortgage spreads will likely widen, refinancing volumes will likely be lower and market volatility will likely be considerably higher than would have been the case absent such actions and our net book value could be adversely affected.

Our Board of Directors may change our investment guidelines without notice or stockholder consent, which may result in riskier investments, and does not approve each investment we make.

Our Board of Directors has approved the following investment guidelines:

our investment portfolio shall consist primarily of Agency securities, but may include 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;

no investment shall be made that would cause us to fail to qualify as a REIT for federal income tax purposes; and

no investment shall be made that would cause us to be regulated as an investment company under the Investment Company Act.

Our Board of Directors periodically reviews our investment guidelines, investment portfolio, and potential investment strategies. However, our Board of Directors does not pre-approve individual investments leaving management with day to day discretion over the portfolio composition within the investment guidelines. Within those guidelines,

management has discretion to significantly change the composition of the portfolio. In addition, in conducting periodic reviews, our Board of Directors may rely primarily on information provided to them by our management. Our Board of Directors has the authority to change our investment guidelines at any time without notice to or consent from our stockholders. In 2015, our Board of Directors amended our investment guidelines permitting us to invest in high credit quality non-Agency MBS. In 2016, our Board of Directors, expanded such authorization to include CRT securities and other mortgage or mortgage-related investments with no restriction on the credit rating of those securities. To the extent that our investment guidelines change in the future, we may make investments

that are different from, and possibly riskier than, the investments described in this Annual Report on Form 10-K. A change in our investment guidelines may increase our exposure to interest rate and real estate market fluctuations. We may experience significant gains or losses and, consequently, greater earnings volatility as a result of our active portfolio management strategy.

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

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

We expect our leverage to vary with market conditions and our assessment of risk/return on investments. We incur this leverage by borrowing against a substantial portion of the market value of our assets. By incurring this leverage, we could enhance our returns. Nevertheless, this leverage, which is fundamental to our investment strategy, also creates significant risks. For example, because of our significant leverage, we may incur substantial losses or lose our ability to maintain the outstanding balance of our borrowings if our borrowing costs increase substantially or if the value of our investments declines substantially.

Failure to procure adequate repurchase agreement and other financing or to renew or replace existing repurchase agreement and other financing as it matures (to which risk we are specifically exposed due to the short-term nature of our financing arrangements we employ) would adversely affect our financial condition and results of operations.

We use debt financing as a strategy to increase our return on equity. However, we may not be able to achieve our desired leverage ratio for a number of reasons, including if:

- our lenders do not make repurchase or other financing agreements available to us at acceptable terms;
- lenders with whom we enter into repurchase or other financing agreements subsequently exit the market;
- our lenders require additional collateral to cover our borrowings, which we may be unable to do; or
- we determine that the leverage would expose us to excessive risk.

Furthermore, because we rely primarily on short-term borrowings, our ability to achieve our investment objectives depends not only on our ability to borrow money in sufficient amounts and on favorable terms, but also on our ability to renew or replace on a continuous basis our maturing short-term borrowings. Additionally, our wholly-owned captive broker-dealer subsidiary's (or BES's) ability to access bilateral and triparty repo funding and to raise funds through the General Collateral Finance Repo service offered by the FICC, requires that it meet on a continuous basis the regulatory and membership requirements of FINRA and the FICC, which may change over time. If BES fails to meet these requirements and is unable to access such funding, we would be required to find alternative funding, which we may be unable to do, and our funding costs, "haircuts" and/or counterparty exposure could increase. Additionally, on January 12, 2016, the Federal Housing Finance Agency ("FHFA") released its final rule on changes to regulations concerning Federal Home Loan Bank ("FHLB") membership criteria. The final rule terminated our captive insurance subsidiary's FHLB membership and required repayment of all advances at the earlier of their contractual maturity dates or one year after the effective date of the final rule in February 2017.

If we are not able to renew or replace maturing borrowings, we may have to sell some or all of our assets, possibly under adverse market conditions. In addition, if the regulatory capital requirements imposed on our lenders change, they may be required to significantly increase the cost of the financing that they provide to us. Our lenders also may revise their eligibility requirements for the types of assets they are willing to finance or the terms of such financings, based on, among other factors, the regulatory environment and their management of perceived risk, particularly with respect to assignee liability. Consequently, financing may not be available to us in the future on terms that are acceptable to us. In the event that we cannot obtain sufficient funding on acceptable terms, there may be a negative

impact on the value of our common and preferred stock and our ability to make distributions on our common and preferred stock.

Differences in the stated maturity of our fixed rate assets, or in timing of interest rate adjustments on our adjustable-rate assets, and our borrowings may adversely affect our profitability.

We rely primarily on short-term and/or variable rate borrowings to acquire fixed-rate securities with long-term maturities. In addition, we may have adjustable rate assets with interest rates that vary over time based upon changes in an objective index,

such as LIBOR or the U.S. Treasury rate. These indices generally reflect short-term interest rates but these assets may not reset in a manner that matches our borrowings.

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

Declines in value of the assets in which we invest will adversely affect our financial condition and results of operations, and make it more costly to finance these assets.

We use our investments as collateral for our financings. A decline in their value, or perceived market uncertainty about their value, could make it difficult for us to obtain financing on favorable terms or at all, or maintain our compliance with terms of any financing arrangements already in place. Any fixed-rate securities we invest in generally will be more negatively affected by increases in interest rates than adjustable-rate securities. Most of our investments in mortgage-related securities are recorded at fair value with changes in fair value reported in net income or other comprehensive income (a component of equity). As a result, a decline in the fair value of our mortgage-related securities could reduce both our comprehensive income and stockholders' equity. If market conditions result in a decline in the fair value of our assets it will decrease the amounts we may borrow to purchase additional mortgage-related investments, which may restrict our ability to increase our net income, and our financial condition and results of operations could be adversely affected.

Our hedging strategies may not be successful in mitigating the risks associated with changes in interest rates.

Subject to complying with REIT tax requirements, we employ techniques that are intended to limit, or "hedge," the adverse effects of changes in interest rates on our repurchase agreements and our net asset value. In general, our hedging strategy depends on our management's view of our entire investment portfolio, consisting of assets, liabilities and derivative instruments, in light of prevailing market conditions. Our hedging activities are generally designed to limit certain exposures and not to eliminate them. In addition, these strategies may be unsuccessful and we could misjudge the condition of our investment portfolio or the market. Our hedging activity will vary in scope based on the level and volatility of interest rates and principal repayments, credit market conditions, the type of assets held and other changing market conditions. Our hedging decisions will be determined in light of the facts and circumstances existing at the time and may differ from our current hedging strategy. Our hedging strategies may include entering into interest rate swap agreements, interest rate swaptions, TBAs, short sales, caps, collars, floors, forward contracts, options, futures or other types of hedging transactions. We may conduct certain hedging transactions through a TRS, which may subject those transactions to federal, state and, if applicable, local income tax.

There are no perfect hedging strategies, and interest rate hedging may fail to protect us from loss. Additionally, our business model calls for accepting certain amounts of interest rate, mortgage spread, prepayment, extension, liquidity and credit risks and other exposures and thus some risks will generally not be hedged. We could also fail to properly assess a risk to our investment portfolio or fail to recognize a risk entirely, leaving us exposed to losses without the benefit of any offsetting hedging activities. The derivative financial instruments we select may not have the effect of reducing our risk. The nature and timing of hedging transactions may influence the effectiveness of these strategies. Poorly designed hedging strategies or improperly executed transactions could actually increase our risk and losses. In addition, hedging activities could result in losses if the event against which we hedge does not occur. For example, interest rate hedging could fail to protect us or adversely affect us because, among other things:

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

the duration of the hedge may not match the duration of the related asset or liability;
the amount of income that a REIT may earn from hedging transactions, other than hedging transactions that satisfy certain requirements of the Internal Revenue Code or that are done through a TRS, is limited by federal tax provisions governing REITs;
the party owing money in the hedging transaction may default on its obligation to pay;

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the credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and
the value of our interest rate hedges declines due to interest rate fluctuations, lapse of time or other factors, reducing our stockholders' equity.

Furthermore, our hedging activities involve costs that we incur regardless of the effectiveness of the hedging activity. These costs may be higher in periods of market volatility, both because the counterparties to our derivative agreements may demand a higher payment for taking risks, and because repeated adjustments of our hedges during periods of interest rate changes also may increase costs. Consequently, we could incur significant hedging-related costs without any corresponding economic benefits.

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

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

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

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

We may purchase securities that have a higher interest rate than the then prevailing market interest rate. In exchange for this higher interest rate, we may pay a premium to par value to acquire the security. In accordance with GAAP, we amortize this premium over the expected term of the security based on our prepayment assumptions. If a security is prepaid in whole or in part at a faster than expected rate, however, we must expense all or a part of the remaining unamortized portion of the premium that was paid at the time of the purchase, which would adversely affect our profitability.

We also may purchase securities that have a lower interest rate than the then prevailing market interest rate. In exchange for this lower interest rate, we may receive a discount to par value to acquire the security. We accrete this discount over the expected term of the security based on our prepayment assumptions. If a security is prepaid at a slower than expected rate, however, we must accrete the remaining portion of the discount at a slower than expected rate, which would result in a lower than expected yield on securities purchased at a discount to par.

Moreover, if prepayment rates decrease due to a rising interest rate environment, the average life or duration of our fixed-rate assets or the fixed-rate portion of our hybrid ARMs and other assets will generally extend. This could have a negative impact on our results from operations, as our interest rate swap maturities are fixed and will, therefore, cover a smaller percentage of our funding exposure on our mortgage assets to the extent that their average lives increase due to slower prepayments. This situation may also cause the market value of our assets to decline by more than otherwise would be the case while most of our hedging instruments would not receive any incremental offsetting gains. In extreme situations, we may be forced to sell assets to maintain adequate liquidity, which could cause us to incur realized losses.

Although prepayment rates generally increase when interest rates fall and decrease when interest rates rise, changes in prepayment rates are difficult to predict. Prepayments can also occur when borrowers sell the property and use the sale proceeds to prepay the mortgage or when borrowers default on their mortgages and the mortgages are prepaid from the proceeds of a foreclosure sale of the property. Fannie Mae and Freddie Mac will generally, among other

conditions, purchase mortgages that are 120 days or more delinquent from mortgage-backed securities trusts when the cost of guarantee payments to security holders, including advances of interest at the security coupon rate, exceeds the cost of holding the nonperforming loans in their portfolios. Consequently, prepayment rates also may be affected by conditions in the housing and financial markets, which may result in increased delinquencies on mortgage loans, the government-sponsored entities cost of capital, general economic conditions and the relative interest rates on fixed and adjustable rate loans, which could lead to an acceleration of the payment of the related principal. Additionally, changes in the government-sponsored entities' decisions as to when to repurchase delinquent loans can materially impact prepayment rates.

In addition, the introduction of new government programs could increase the availability of mortgage credit to a large number of homeowners in the United States, which could impact the prepayment rates for the entire mortgage securities market, and in particular for Fannie Mae and Freddie Mac Agency securities. These new programs or changes to existing programs could cause substantial uncertainty around the magnitude of changes in prepayment speeds. To the extent that actual prepayment speeds differ from our expectations, it could adversely affect our operating results.

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

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

Investments in non-Agency securities potentially subject us to delinquency, foreclosure and related losses on the underlying mortgage loans.

Investments in mortgage and mortgage-related securities, such as CRT securities, non-Agency RMBS and CMBS, where repayment of principal and interest is not guaranteed by a GSE subject us to the potential risk of loss of principal and/or interest due to delinquency, foreclosure and related losses on the underlying mortgage loans. CRT securities are risk sharing instruments issued by Fannie Mae (CAS) and Freddie Mac (STACR), and similarly structured transactions arranged by third party market participants. The securities issued in the CRT sector are designed to synthetically transfer mortgage credit risk from Fannie Mae and Freddie Mac to private investors. Currently, CAS and STACR transactions are structured as unsecured and unguaranteed bonds issued by Fannie Mae or Freddie Mac, respectively, whose principal payments are determined by the delinquency and prepayment experience of a reference pool of mortgages guaranteed by Fannie Mae or Freddie Mac in a particular quarter. Transactions arranged by third party market participants in the CRT sector are similarly structured to reference a specific pool of loans that have been securitized by Fannie Mae or Freddie Mac and synthetically transfer mortgage credit risk related to those loans to the purchaser of the securities. The holder of CRT securities bears the risk that the borrowers may default on their obligations to make full and timely payments of principal and interest. The return of the principal invested in CRT securities is dependent on the level of borrower defaults on the underlying pool of mortgages. An investor in CRT securities bears the risk that the borrowers in the reference pool of loans may default on their obligations to make full and timely payments of principal and interest.

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

Commercial mortgage loans underlying CMBS are generally secured by multifamily or other commercial property and are subject to risks of delinquency and foreclosure, and risks of loss that are greater than similar risks associated with loans made on the security of residential property. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than

upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of an income producing property can be affected by, among other things: tenant mix; success of tenant businesses; property management decisions; property location and condition; competition from comparable types of properties; changes in laws that increase operating expense or limit rents that may be charged; any need to address environmental contamination at the property; the occurrence of any uninsured casualty at the property; changes in national, regional or local economic conditions or specific industry segments; declines in regional or local real estate values; declines in regional or local rental or occupancy rates; increases in interest rates; real estate tax rates and other operating expenses; changes in governmental

rules, regulations and fiscal policies, including environmental legislation; acts of God, acts of war or terrorism, social unrest and civil disturbances.

Investments in non-Agency securities could cause us to incur losses of income from, and/or losses in market value relating to, these assets if there are defaults of principal and/or interest on the underlying or referenced pool of mortgages in the transaction.

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

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

Pursuant to the terms of borrowings under master repurchase agreements, we are subject to margin calls that could result in defaults or force us to sell assets under adverse market conditions or through foreclosure.

We enter into master repurchase agreements with a number of financial institutions. We borrow under these master repurchase agreements to finance the assets for our investment portfolio. Pursuant to the terms of borrowings under our master repurchase agreements, a decline in the value of the collateral may result in our lenders initiating margin calls. A margin call means that the lender requires us to pledge additional collateral to re-establish the ratio of the value of the collateral to the amount of the borrowing. The specific collateral value to borrowing ratio that would trigger a margin call is not set in the master repurchase agreements and is not determined until we engage in a repurchase transaction under these agreements. Our fixed-rate collateral generally may be more susceptible to margin calls as increases in interest rates tend to affect more negatively the market value of fixed-rate securities. In addition, some collateral may be more illiquid than other instruments in which we invest, which could cause them to be more susceptible to margin calls in a volatile market environment. Moreover, collateral that prepays more quickly increases the frequency and magnitude of potential margin calls as there is a significant time lag between when the prepayment is reported (which reduces the market value of the security) and when the principal payment is actually received. If we are unable to satisfy margin calls, our lenders may foreclose on our collateral. The threat of or occurrence of a margin call could force us to sell, either directly or through a foreclosure, our collateral under adverse market conditions. Because of the leverage we expect to have, we may incur substantial losses upon the threat or occurrence of a margin call.

Our derivative agreements expose us to margin calls that could result in defaults or force us to sell assets under adverse market conditions.

Our derivative agreements typically require that we pledge collateral on such agreements to our counterparties in a similar manner as we are required to under our repurchase agreements. Our counterparties, or the central clearing agency, typically have the sole discretion to determine the value of the derivative instruments and the value of the collateral securing such instruments. In the event of a margin call, we must generally provide additional collateral on the same business day. Our derivative agreements may also contain cross default provisions under which a default under certain of our other indebtedness in excess of a certain threshold amount causes an event of default under the agreement. Following an event of default, we could be required to settle our obligations under the agreements at their termination values. The threat of or occurrence of margin calls or the forced settlement of our obligations under our derivative agreements at their termination values could force us to sell, either directly or through a foreclosure, our investments under adverse market conditions. Because of the leverage we have, we may incur substantial losses upon the threat or occurrence of either of these events.

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

negatively affect our financial condition and results of operations.

The U.S. Commodity Futures Trading Commission (the "CFTC") subjects certain swaps to clearing and exchange trading requirements, margin requirements, reporting, record keeping and business conduct rules. The rules and regulations promulgated by the CFTC and regulators of other countries may adversely affect our ability to engage in derivative transactions or may increase the cost of our hedging activity. We are required to follow some of these local regulations or help the non-U.S. counterparties comply with these local regulations. It is possible that such regulatory requirements will result in increased costs for OTC derivative counterparties and also lead to an increase in the costs of collateral, which may have an adverse impact on our business and results of operations.

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

We may utilize TBA dollar roll transactions as a means of investing in and financing Agency mortgage-backed securities. TBA contracts enable us to purchase or sell, for future delivery, Agency securities with certain principal and interest terms and certain types of collateral, but the particular Agency securities to be delivered are not identified until shortly before the TBA settlement date. Prior to settlement of the TBA contract we may choose to move the settlement of the securities out to a later date by entering into an offsetting position (referred to as a "pair off"), net settling the paired off positions for cash, and simultaneously purchasing a similar TBA contract for a later settlement date, collectively referred to as a "dollar roll." The Agency securities purchased for a forward settlement date under the TBA contract are typically priced at a discount to Agency securities for settlement in the current month. This difference (or discount) is referred to as the "price drop." The price drop is the economic equivalent of net interest carry income on the underlying Agency securities over the roll period (interest income less implied financing cost) and is commonly referred to as "dollar roll income." Consequently, dollar roll transactions and such forward purchases of Agency securities represent a form of off-balance sheet financing and increase our "at risk" leverage.

Under certain market conditions, TBA dollar roll transactions may result in negative carry income whereby the Agency securities purchased for a forward settlement date under the TBA contract are priced at a premium to Agency securities for settlement in the current month. Additionally, sales of some or all of the Fed's holdings of Agency RMBS or declines in purchases of Agency RMBS by the Fed could adversely impact the dollar roll market. Under such conditions, it may be uneconomical to roll our TBA positions prior to the settlement date and we could have to take physical delivery of the underlying securities and settle our obligations for cash. We may not have sufficient funds or alternative financing sources available to settle such obligations. In addition, pursuant to the margin provisions established by the Mortgage-Backed Securities Division ("MBSD") of the FICC we are subject to margin calls on our TBA contracts. Further, our prime brokerage agreements may require us to post additional margin above the levels established by the MBSD. Negative carry income on TBA dollar roll transactions or failure to procure adequate financing to settle our obligations or meet margin calls under our TBA contracts could result in defaults or force us to sell assets under adverse market conditions or through foreclosure and adversely affect our financial condition and results of operations.

Defaults by lenders to our repurchase transactions on their obligations to resell the underlying collateral back to us at the end of the transaction term, declines in the value of our collateral by the end of the term or defaults by us on our obligations under the transaction will cause us to lose money on repurchase transactions.

When we engage in a repurchase transaction, we initially transfer securities or loans to the financial institution under one of our master repurchase agreements in exchange for cash, and our counterparty is obligated to resell such assets to us at the end of the term of the transaction, which is typically from 30 days to one year, but which may have terms from one day to up to five years or more. The cash we receive when we initially sell the collateral is less than the value of that collateral, which is referred to as the "haircut." As a result, we are able to borrow against a smaller portion of the collateral that we initially sell in these transactions. Increased haircuts require us to post additional collateral. The haircut rates under our master repurchase agreements are not set until we engage in a specific repurchase transaction under these agreements. If our counterparty defaults on its obligation to resell collateral to us, we would incur a loss on the transaction equal to the amount of the haircut (assuming there was no change in the value of the securities). Any losses we incur on our repurchase transactions could adversely affect our earnings, and, thus, our cash available for distribution to our stockholders.

If we default on one of our obligations under a repurchase transaction, the counterparty can terminate the transaction and cease entering into any other repurchase transactions with us. In that case, we would likely need to establish a replacement repurchase facility with another financial institution in order to continue to leverage our investment portfolio and carry out our investment strategy. We may not be able to secure a suitable replacement facility on acceptable terms or at all.

Further, financial institutions providing the repurchase agreements may require us to maintain a certain amount of cash or to set aside non-leveraged assets sufficient to maintain a specified liquidity position which would allow us to satisfy our collateral obligations. As a result, we may not be able to leverage our assets as fully as we would choose,

which could reduce our return on equity. If we are unable to meet these collateral obligations, our financial condition could deteriorate rapidly. Additionally, our counterparties can unilaterally choose to cease entering into any further repurchase transactions with us.

Our rights under our repurchase agreements are subject to the effects of the bankruptcy laws in the event of the bankruptcy or insolvency of us or our lenders under the repurchase agreements.

In the event of our insolvency or bankruptcy, certain repurchase agreements may qualify for special treatment under the U.S. Bankruptcy Code, the effect of which, among other things, would be to allow the lender under the applicable repurchase agreement to avoid the automatic stay provisions of the U.S. Bankruptcy Code and to foreclose on the collateral agreement without delay. In the event of the insolvency or bankruptcy of a lender during the term of a repurchase agreement, the lender may be permitted,

under applicable insolvency laws, to repudiate the contract, and our claim against the lender for damages may be treated simply as an unsecured creditor. In addition, if the lender is a broker or dealer subject to the Securities Investor Protection Act of 1970, or an insured depository institution subject to the Federal Deposit Insurance Act, our ability to exercise our rights to recover our assets under a repurchase agreement or to be compensated for any damages resulting from the lender's insolvency may be further limited by those statutes. These claims would be subject to significant delay and, if and when received, may be substantially less than the damages we actually incur.

Our use of derivative agreements may expose us to counterparty risk.

Certain hedging instruments are not traded on regulated exchanges or guaranteed by an exchange or its clearinghouse and involves risks and costs that could result in material losses. Consequently, there may not be requirements with respect to record keeping, financial responsibility or segregation of customer funds and positions. Furthermore, the enforceability of agreements underlying hedging transactions may depend on compliance with applicable statutory and commodity and other regulatory requirements and, depending on the domicile of the counterparty, applicable international requirements. Consequently, if a counterparty fails to perform under a derivative agreement we could incur a significant loss.

For example, if a swap counterparty under an interest rate swap agreement that we enter into as part of our hedging strategy cannot perform under the terms of the interest rate swap agreement, we may not receive payments due under that agreement, and, thus, we may lose any potential benefit associated with the interest rate swap. Additionally, we may also risk the loss of any collateral we have pledged to secure our obligations under these swap agreements if the counterparty becomes insolvent or files for bankruptcy. Similarly, if an interest rate swaption counterparty fails to perform under the terms of the interest rate swaption agreement, in addition to not being able to exercise or otherwise cash settle the agreement, we could also incur a loss for the premium paid for that swaption.

Our investments are recorded at fair value and quoted prices or observable inputs may not be readily available to determine such value, resulting in the use of unobservable inputs to determine value, and the fair value of our investments may be materially different from the value that we ultimately realize upon their disposal.

The values of our investments may not be readily determinable or ultimately realizable. We measure the fair value of our investments quarterly, in accordance with guidance set forth in Accounting Standards Codification Topic 820, Fair Value Measurements and Disclosures. Ultimate realization of the value of an asset depends to a great extent on economic and other conditions that are beyond our control. Further, fair value is only an estimate based on good faith judgment of the price at which an investment can be sold since market prices of investments can only be determined by negotiation between a willing buyer and seller. If we were to liquidate a particular asset, the realized value may be more than or less than the amount at which such asset is valued. Accordingly, the value of our common stock could be adversely affected by our determinations regarding the fair value of our investments, whether in the applicable period or in the future. Additionally, such valuations may fluctuate over short periods of time.

Our determination of the fair value of our investments includes inputs provided by third-party dealers and pricing services. Valuations of certain investments in which we invest may be difficult to obtain or unreliable. In general, dealers and pricing services heavily disclaim their valuations. Dealers may claim to furnish valuations only as an accommodation and without special compensation, and so they may disclaim any and all liability for any direct, incidental, or consequential damages arising out of any inaccuracy or incompleteness in valuations, including any act of negligence or breach of any warranty. Depending on the complexity and illiquidity of a security, valuations of the same security can vary substantially from one dealer or pricing service to another. Therefore, our results of operations for a given period could be adversely affected if our determinations regarding the fair market value of these investments are materially different from the values that we ultimately realize upon their disposal.

Investments in the common stock of other publicly traded mortgage REITs expose us to incremental risks and costs and may adversely affect our financial condition and results of operations.

We may invest in other mortgage REITs that primarily invest in Agency securities, non-Agency securities and other mortgage related instruments on a leveraged basis, utilizing short-term borrowings as their primary source of funding. Such mortgage REITs are, therefore, exposed to similar risk factors as those described herein and other risks inherent to investment strategies that they may pursue that diverge from our own. In addition, our investments in other mortgage REITs may expose us to incremental risks and costs due to our lack of control, lack of transparency into

their underlying investment portfolios and business operations, stock market volatility and management fees, each of which could adversely affect our financial condition and results of operations.

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

The payments of principal and interest we receive on the Agency securities in which we invest are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. The guarantees on Agency securities created by Fannie Mae and Freddie Mac are not backed by the full faith and credit of the United States, whereas the guarantee on securities created by Ginnie Mae are backed by the full faith and credit of the United States.

In response to general market instability and, more specifically, the financial conditions of Fannie Mae and Freddie Mac, in July 2008, the Housing and Economic Recovery Act of 2008, or "HERA", established FHFA as the new regulator for Fannie Mae and Freddie Mac. In September 2008, the U.S. Treasury, the FHFA and the U.S. Federal Reserve announced a comprehensive action plan to help stabilize the financial markets, support the availability of mortgage financing and protect taxpayers. Under this plan, among other things, the FHFA was appointed as conservator of both Fannie Mae and Freddie Mac. The future roles of Fannie Mae and Freddie Mac could be significantly reduced and the nature of their guarantee obligations could be considerably limited relative to historical measurements. Any such changes to the nature of their guarantee obligations could re-define what constitutes an Agency security and could have broad adverse implications for the market and our business, operations and financial condition.

Future changes to Fannie Mae or Freddie Mac may create market uncertainty and may reduce the actual or perceived credit quality of securities issued or guaranteed by these agencies. Moreover, if the guarantee obligations of Fannie Mae or Freddie Mac were repudiated by FHFA, payments of principal and/or interest to holders of Agency securities issued by Fannie Mae or Freddie Mac would be reduced in the event of any borrower's late payments or failure to pay or a servicer's failure to remit borrower payments to the trust. In that case, trust administration and servicing fees could be paid from mortgage payments prior to distributions to holders of Agency securities. Any actual direct compensatory damages owed due to the repudiation of Fannie Mae or Freddie Mac's guarantee obligations may not be sufficient to offset any shortfalls experienced by holders of Agency securities. As a result, such laws or changes could increase the risk of loss on our investments in Agency mortgage investments guaranteed by Fannie Mae and/or Freddie Mac or adversely impact the market for such securities and spreads at which they trade and could materially and adversely affect our financial condition and results of operations.

There are conflicts of interest with other funds that we manage.

Through our wholly-owned subsidiary, MTGE Management, LLC, we manage MTGE Investment Corp., which is also a mortgage REIT that invests in securities and instruments of the type invested by us. Although we have policies in place to seek to mitigate the effects of conflicts of interest, these policies will not eliminate the conflicts of interest that our officers and employees, who provide services to both us and MTGE, will face in making investment decisions on behalf of us or MTGE. Further, we do not have any agreement or understanding with MTGE that would give us any priority over it in opportunities to invest in overlapping investments. Accordingly, we may compete for access to investments with MTGE.

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

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

Risks Related to Our Taxation as a REIT

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

We believe that we operate in a manner that allows us to qualify as a REIT for federal income tax purposes under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, and Treasury Regulations promulgated thereunder (or the Code). We plan to continue to meet the requirements for taxation as a REIT. The determination that we are a REIT requires an analysis of various factual matters and circumstances that may not be totally within our control and our compliance with the annual REIT income and quarterly asset requirements depends upon our ability to successfully manage the composition of our income and assets on an ongoing basis. For example, to qualify as a

REIT, at least 75% of our gross income must come from real estate sources and 95% of our gross income must come from real estate sources and certain other sources that are itemized in the REIT tax laws. Additionally, our ability to satisfy the REIT asset tests depends upon our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Furthermore, the proper classification of an instrument as debt or equity for federal income tax purposes may be uncertain in some circumstances, which could affect the application of the REIT asset requirements. We are also required to distribute to stockholders at least 90% of our REIT taxable income (determined without regard to the deduction for dividends paid and by excluding any net capital gain).

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

If we should fail to satisfy one or more requirements for REIT qualification, we may still qualify as a REIT if there is reasonable cause for the failure and not due to willful neglect and other applicable requirements are met, including completion of applicable IRS filings. It is not possible to state whether we would be entitled to the benefit of these relief provisions in all circumstances. If these relief provisions are inapplicable to a particular set of circumstances, we will not qualify as a REIT. Furthermore, if we satisfy the relief provisions and maintain our qualification as a REIT, we may be still subject to a penalty tax. The amount of the penalty tax will be at least \$50,000 per failure, and, in the case of certain asset test failures, will be determined as the amount of net income generated by the assets in question multiplied by the highest U.S. federal corporate tax rate (currently 35%) if that amount exceeds \$50,000 per failure, and, in case of income test failures, will be a 100% tax on an amount based on the magnitude of the failure, as adjusted to reflect the profit margin associated with our gross income.

Distributions payable by REITs do not qualify for the reduced tax rates available for some dividends.

The maximum tax rate applicable to income from "qualified dividends" payable to domestic stockholders that are individuals, trusts and estates is currently 20%. Distributions of ordinary income payable by REITs, however, generally are not eligible for the reduced rates. Although this legislation does not adversely affect the taxation of REITs or distributions payable by REITs, the more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common stock.

New legislation or administrative or judicial action, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to remain qualified as a REIT or it could reduce the favorable tax attributes of REITs to stockholders.

The present federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect the federal income tax treatment of an investment in us. The federal income tax rules dealing with REITs constantly are under review by persons involved in the legislative process, the IRS and the U.S. Treasury Department, which results in statutory changes as well as frequent revisions to regulations and interpretations. Furthermore, changes in corporate and individual tax rates may reduce or eliminate the favorable tax attributes of REITs to stockholders relative to alternative investment vehicles. Revisions in federal tax laws and interpretations thereof could affect or cause us to change our investments and commitments and affect the tax considerations of an investment in us.

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

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

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

From time-to-time, we may generate taxable income greater than our income for financial reporting purposes prepared in accordance with GAAP, or differences in timing between the recognition of taxable income and the actual receipt of cash may

occur. For example, if we purchase mortgage securities at a discount, we are generally required to accrete the discount into taxable income prior to receiving the cash proceeds of the accreted discount at maturity. Additionally, if we incur capital losses in excess of capital gains, such net capital losses are not allowed to reduce our taxable income for purposes of determining our distribution requirement. They may be carried forward for a period of up to five years and applied against future capital gains subject to the limitation of our ability to generate sufficient capital gains, which cannot be assured. If we do not have other funds available in these situations we could be required to borrow funds on unfavorable terms, sell investments at disadvantageous prices or distribute amounts that would otherwise be invested in future acquisitions to make distributions sufficient to maintain our qualification as a REIT, or avoid corporate income tax and the 4% excise tax in a particular year. These alternatives could increase our costs or reduce our stockholders' equity. Thus, compliance with the REIT requirements may hinder our ability to grow, which could adversely affect the value of our common stock.

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

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

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

Even if we remain qualified for taxation as a REIT, we may nonetheless be subject to certain federal, state and local taxes on our income and assets, including, but not limited to, the following items. Any of these or other taxes we may incur would decrease cash available for distribution to our stockholders.

- Regular U.S. federal and state corporate income taxes on any undistributed taxable income, including undistributed net capital gains.

- A non-deductible 4% excise tax if the actual amount distributed to our stockholders in a calendar year is less than a minimum amount specified under federal tax laws.

- Corporate income taxes on the earnings of subsidiaries, to the extent that such subsidiaries are subchapter C corporations and are not qualified REIT subsidiaries or other disregarded entity for federal income tax purposes.

- A 100% tax on transactions between us and our TRSs, that do not reflect arm's-length terms.

If we acquire appreciated assets from a corporation that is not a REIT (i.e., a corporation taxable under subchapter C of the Internal Revenue Code) in a transaction in which the adjusted tax basis of the assets in our hands is determined by reference to the adjusted tax basis of the assets in the hands of the subchapter C corporation, we may be subject to tax on such appreciation at the highest corporate income tax rate then applicable if we subsequently recognize a gain on a disposition of any such assets during the ten-year period following their acquisition from the subchapter C corporation.

- A 100% tax on net income and gains from "prohibited transactions"

• Penalty taxes and other fines for failure to satisfy one or more requirements for REIT qualification.

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

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

asset-diversification requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder our ability to make and, in certain cases, to maintain ownership of, certain attractive investments.

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

To remain qualified as a REIT, we must ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified real estate assets. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, and, for tax years beginning on or before December 31, 2017, no more than 25% of the value of our total assets can be represented by securities of one or more TRSs. For tax years beginning after December 31, 2017, no more than 20% of the value of our total assets can be represented by securities of one or more TRSs. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate from our investment portfolio otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

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

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

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

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

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

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

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

We purchase and sell Agency mortgage-backed securities through TBAs and recognize income or gains from the disposition of those TBAs, through dollar roll transactions or otherwise, and may continue to do so in the future. While there is no direct authority with respect to the qualification of TBAs as real estate assets or U.S. Government securities for purposes of the 75% asset test or the qualification of income or gains from dispositions of TBAs as gains from the sale of real property (including interests in real property and interests in mortgages on real property) or other qualifying income for purposes of the 75% gross income test, we treat our TBAs as qualifying assets for purposes of the REIT 75% asset test, and we treat income and gains from our TBAs as qualifying income for purposes of the 75%

gross income test, based on an opinion of Skadden, Arps, Slate, Meagher & Flom LLP substantially to the effect that (i) for purposes of the REIT asset tests, our ownership of a TBA should be treated as ownership of the underlying Agency securities, and (ii) for purposes of the 75% REIT gross income test, any gain recognized by us in connection with the settlement of our TBAs should be treated as gain from the sale or disposition of the underlying Agency securities. Opinions of counsel are not binding on the IRS, and no assurance can be given that the IRS will not successfully challenge the conclusions set forth in such opinions. In addition, it must be emphasized that the opinion of Skadden, Arps, Slate, Meagher & Flom LLP is based on various assumptions relating to our TBAs and is conditioned upon fact-based representations

and covenants made by our management regarding our TBAs. No assurance can be given that the IRS would not assert that such assets or income are not qualifying assets or income. If the IRS were to successfully challenge the opinion of Skadden, Arps, Slate, Meagher & Flom LLP, we could be subject to a penalty tax or we could fail to remain qualified as a REIT if a sufficient portion of our assets consists of TBAs or a sufficient portion of our income consists of income or gains from the disposition of TBAs.

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

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

The tax on prohibited transactions will limit our ability to engage in transactions, including certain methods of structuring CMOs, which would be treated as prohibited transactions for federal income tax purposes.

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

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

Distributions to tax-exempt investors may be classified as unrelated business taxable income.

Neither ordinary nor capital gain distributions with respect to our common stock nor gain from the sale of common stock should generally constitute unrelated business taxable income to a tax-exempt investor. However, there are certain exceptions to this rule. In particular:

part of the income and gain recognized by certain qualified employee pension trusts with respect to our common stock may be treated as unrelated business taxable income if shares of our common stock are predominantly held by qualified employee pension trusts, and we are required to rely on a special look-through rule for purposes of meeting one of the REIT ownership tests, and we are not operated in a manner to avoid treatment of such income or gain as unrelated business taxable income;

part of the income and gain recognized by a tax-exempt investor with respect to our common stock would constitute unrelated business taxable income if the investor incurs debt in order to acquire the common stock;

part or all of the income or gain recognized with respect to our common stock by social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans which are exempt from federal income taxation under the Internal Revenue Code may be treated as unrelated business taxable income; and

to the extent that we are (or a part of us, or a disregarded subsidiary of ours, is) a "taxable mortgage pool," or if we hold residual interests in a REMIC, a portion of the distributions paid to a tax-exempt stockholder that is allocable to

excess inclusion income may be treated as unrelated business taxable income.

Risks Related to Our Business Structure

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

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

in real estate," or "qualifying real estate interests," and (ii) at least 80% of our investment portfolio consist of qualifying real estate interests plus "real estate-related assets."

The specific real estate related assets that we acquire are limited by the provisions of the Investment Company Act and the rules and regulations promulgated thereunder. In satisfying the 55% requirement we treat Agency RMBS issued with respect to an underlying pool of mortgage loans in which we hold all of the certificates issued by the pool ("whole pool" securities) as qualifying real estate interests based on pronouncements of the SEC staff. We treat partial pool securities, CRT and other mortgage related securities as real estate-related assets. If the SEC determines that any of these securities are not qualifying interests in real estate or real estate-related assets, adopts a contrary interpretation with respect to these securities or otherwise believes we do not satisfy the above exceptions or changes its interpretation of the above exceptions, we could be required to restructure our activities or sell certain of our assets. Our compliance with these requirements may at times lead us to adopt less efficient methods of financing certain of our investments, and we may be precluded from acquiring higher yielding securities. Furthermore, if we fail to qualify for this exemption, our ability to use leverage would be substantially reduced and we would be unable to conduct our business as we currently conduct it, which could materially and adversely affect our business.

Risks Related to Our Common Stock

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

The market price of our common stock may be highly volatile and be subject to wide fluctuations. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. Price variations may be unrelated to our operating performance. If the market price of our common stock declines significantly, you may be unable to resell your shares at a gain. Further, fluctuations in the trading price of our common stock may adversely affect the liquidity of the trading market for our common stock and, in the event that we seek to raise capital through future equity financings, our ability to raise such equity capital.

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

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

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

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

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

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

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

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

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

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

One of the factors that investors may consider in deciding whether to buy or sell shares of our common stock is our distribution rate as a percentage of our share price relative to market interest rates. If the market price of our common stock is based primarily on the earnings and return that we derive from our investments and income with respect to our investments and our related distributions to stockholders, and not from the market value of the investments themselves, then interest rate fluctuations and capital market conditions are likely to affect adversely the market price of our common stock. For instance, if market rates rise without an increase in our distribution rate, the market price of our common stock could decrease as potential investors may require a higher distribution rate on our common stock or seek other securities paying higher distributions or interest. In addition, rising interest rates would result in increased interest expense on our variable rate debt, thereby reducing cash flow and our ability to service our indebtedness and pay distributions.

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

To qualify as a REIT under the Internal Revenue Code, not more than 50% in value of our outstanding stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) at any time during the last half of each taxable year in which we qualify as a REIT. Our amended and restated certificate of incorporation, with certain exceptions, authorizes our Board of Directors to take the actions that are

necessary and desirable to qualify as a REIT. Pursuant to our amended and restated certificate of incorporation, no person may beneficially or constructively own more than 9.8% in value or in number of shares, whichever is more restrictive, of our common or capital stock.

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

to any person whose percentage ownership of our common or capital stock, as the case may be, is in excess of such decreased stock ownership limit until that person's percentage ownership of our common or capital stock, as the case may be, equals or falls below the decreased stock ownership limit. Until such a person's percentage ownership of our common or capital stock, as the case may be, falls below such decreased stock ownership limit, any further acquisition of our common or capital stock will be in violation of the decreased stock ownership limit.

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

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

Item 3. Legal Proceedings

Neither we, nor any of our consolidated subsidiaries, are currently subject to any material litigation nor, to our knowledge, is any litigation threatened against us or any consolidated subsidiary, in each case, that is expected to have a material adverse effect on our business, financial condition or operations. See also "Loss Contingencies" in Note 2 to the Consolidated Financial Statements included under Item 8 of this Annual Report on Form 10-K.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II. FINANCIAL INFORMATION

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

Quarterly Stock Prices and Dividend Declarations

Our common stock is listed on the NASDAQ Global Select Market under the symbol "AGNC." As of January 31, 2017, we had 1,084 stockholders of record. Most of the shares of our common stock are held by brokers and other institutions on behalf of stockholders.

The following table sets forth the range of high and low sales prices of our common stock as reported on the NASDAQ Global Select Market and dividends declared on our common stock for fiscal years 2016 and 2015:

	Common Stock		
	Sales Prices		Dividends
	High	Low	Declared ¹
Fiscal Year 2016			
Fourth Quarter	\$20.43	\$17.30	\$ 0.54
Third Quarter	\$20.10	\$18.88	\$ 0.56
Second Quarter	\$19.85	\$18.00	\$ 0.60
First Quarter	\$18.80	\$15.69	\$ 0.60
Fiscal Year 2015			
Fourth Quarter	\$19.54	\$16.89	\$ 0.60
Third Quarter	\$20.08	\$18.21	\$ 0.60
Second Quarter	\$21.83	\$18.31	\$ 0.62
First Quarter	\$22.36	\$20.74	\$ 0.66

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

We intend to pay monthly dividends to our common stockholders and to distribute all of our annual taxable income in a timely manner. This will enable us to qualify for the tax benefits accorded to a REIT under the Internal Revenue Code. We have not established a minimum dividend payment level and our ability to pay dividends may be adversely affected for the reasons described under the caption "Risk Factors."

In addition, holders of our 8.000% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock") and our 7.750% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock") (each underlying depositary share representing a 1/1000th interest in a share of our Series B Preferred Stock) are entitled to receive cumulative cash dividends at a rate of 8.000% and 7.750% per annum, respectively, of their aggregate liquidation preference of \$173 million and \$175 million, respectively, before holders of our common stock are entitled to receive any dividends. Under certain circumstances upon a change of control, the Series A and Series B Preferred Stock are convertible to shares of our common stock. All distributions will be made at the discretion of our Board of Directors and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as our Board of Directors may deem relevant from time to time.

The following table summarizes the tax characterization of dividends declared on our common stock for fiscal years 2016 and 2015:

Tax Characterization

	Dividends Declared Per Share of Common Stock	Ordinary Income Per Share	Qualified Dividends	Long-Term Capital Gains Per Share	Non-Dividend Distributions ²
Fiscal Year 2016 ¹	\$ 2.12	\$1.689674	\$	—\$	—\$ 0.430326
Fiscal Year 2015	\$ 2.48	\$2.480000	\$	—\$	—\$ —

Includes dividends declared through November 30, 2016. The dividend of \$0.18 per common share declared on 1. December 14, 2016, which was payable on January 9, 2017, will be reported to stockholders as a fiscal year 2017 distribution for federal income tax purposes.

2. Also referred to as a "return of capital." Represents dividends paid in excess of our current and accumulated earnings and profit, or "E&P," which is a tax-based measure calculated by making adjustments to taxable income for items that are treated differently for E&P purposes, such as net capital

losses and utilization of net capital loss carryforwards. A return of capital reduces the basis of a stockholder's investment in our common stock to the extent of such basis and is treated as capital gain thereafter.

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

Equity Compensation Plan Information

The following table summarizes information, as of December 31, 2016, concerning shares of our common stock authorized for issuance under our equity compensation plans, pursuant to which grants of equity-based awards, including stock options, restricted stock units and unrestricted stock awards may be granted from time to time. See "Item 8. Financial Statements" for a description of our equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average price of outstanding plans (excluding securities reflected in the first column of this table) options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column of this table)
Equity compensation plans approved by security holders ¹	122,841	\$	—9,898,593
Equity compensation plans not approved by security holders	—	—	—
Total	122,841	\$	—9,898,593

1. Represents unvested restricted stock units and accrued dividend equivalent units.

Performance Graph

The following graph and table compare a stockholder's cumulative total return, assuming \$100 invested at December 31, 2011, with the reinvestment of all dividends, as if such amounts had been invested in: (i) our common stock; (ii) the stocks included in the Standard & Poor's 500 Stock Index ("S&P 500"); (iii) the stocks included in the FTSE NAREIT Mortgage REIT Index; (iv) an index of selected issuers in our peer group, composed of Annaly Capital Management, Inc., Anworth Mortgage Asset Corporation, Capstead Mortgage Corporation, CYS Investments, Inc. and Armour Residential REIT, Inc. (collectively, the "Agency REIT Peer Group").

*\$100 invested on 12/31/11 in stock or index, including reinvestment of dividends.

Fiscal year ending December 31.

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	December 31,				
	2016	2015	2014	2013	2012
AGNC Investment Corp.	\$126.34	\$106.90	\$118.63	\$93.30	\$120.10
S&P 500	\$198.18	\$177.01	\$174.60	\$153.58	\$116.00
FTSE NAREIT Mortgage REITs	\$155.11	\$126.26	\$138.56	\$117.54	\$119.89
Agency REIT Peer Group ¹	\$112.01	\$93.07	\$98.05	\$81.35	\$100.95

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

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

Item 6. Selected Financial Data

The following selected financial data is derived from our audited financial statements for the five fiscal years ended December 31, 2016. The selected financial data should be read in conjunction with the more detailed information contained in the Financial Statements and Notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Annual Report on Form 10-K.

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(\$ in millions, except per share amounts)

	December 31,				
	2016	2015	2014	2013	2012
Balance Sheet Data					
Investment securities, at fair value	\$46,499	\$52,473	\$56,748	\$65,941	\$85,245
Total assets	\$56,880	\$57,021	\$67,766	\$76,255	\$100,453
Repurchase agreements, Federal Home Loan Bank advances and other debt	\$41,355	\$46,102	\$51,057	\$64,443	\$75,415
Total liabilities	\$49,524	\$49,050	\$58,338	\$67,558	\$89,557
Total stockholders' equity	\$7,356	\$7,971	\$9,428	\$8,697	\$10,896
Net asset value per common share as of period end ¹	\$21.17	\$22.59	\$25.74	\$23.93	\$31.64
Tangible net asset value per common share as of period end ²	\$19.50	N/A	N/A	N/A	N/A
	Fiscal Year				
	2016	2015	2014	2013	2012
Statement of Comprehensive Income Data					
Interest income	\$1,321	\$1,466	\$1,472	\$2,193	\$2,109
Interest expense ³	394	330	372	536	512
Net interest income	927	1,136	1,100	1,657	1,597
Other gain (loss), net ³	(199)	(782)	(1,192)	(217)	(157)
Operating Expenses	105	139	141	168	144
Income (loss) before income tax	623	215	(233)	1,272	1,296
Provision for income tax, net	—	—	—	13	19
Net income (loss)	623	215	(233)	1,259	1,277
Dividend on preferred stock	28	28	23	14	10
Net income (loss) available (attributable) to common stockholders	\$595	\$187	\$(256)	\$1,245	\$1,267
Net income (loss)	\$623	\$215	\$(233)	\$1,259	\$1,277
Other comprehensive income (loss) ³	(331)	(496)	1,813	(2,938)	1,244
Comprehensive income (loss) available (attributable) to common stockholders	292	(281)	1,580	(1,679)	2,521
Dividend on preferred stock	28	28	23	14	10
Comprehensive income (loss) available (attributable) to common stockholders	\$264	\$(309)	\$1,557	\$(1,693)	\$2,511
Weighted average number of common shares outstanding - basic and diluted	331.9	348.6	353.3	379.1	303.9
Net income (loss) per common share - basic and diluted	\$1.79	\$0.54	\$(0.72)	\$3.28	\$4.17
Comprehensive income (loss) per common share - basic and diluted	\$0.80	\$(0.89)	\$4.41	\$(4.47)	\$8.26
Dividends declared per common share	\$2.30	\$2.48	\$2.61	\$3.75	\$5.00
	Fiscal Year				
	2016	2015	2014	2013	2012
Other Data (unaudited)					
Average investment securities - at par	\$47,101	\$51,759	\$53,578	\$75,263	\$71,002
Average investment securities - at cost	\$49,268	\$54,019	\$56,051	\$79,056	\$74,588
Average total assets - at fair value	\$56,931	\$63,674	\$67,007	\$96,956	\$86,172
Net TBA dollar roll position - at par (as of period end)	\$10,916	\$7,295	\$14,412	\$2,119	\$12,477
Net TBA dollar roll position - at cost (as of period end)	\$11,312	\$7,430	\$14,576	\$2,276	\$12,775
Net TBA dollar roll position - at market value (as of period end)	\$11,165	\$7,444	\$14,768	\$2,271	\$12,870
	\$(147)	\$14	\$192	\$(5)	\$95

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Net TBA dollar roll position - at carrying value (as of period end) ⁴

Average net TBA portfolio - at cost	\$10,329	\$7,547	\$13,212	\$11,383	\$3,294	
Average mortgage borrowings outstanding ⁵	\$44,566	\$48,641	\$50,015	\$71,753	\$68,810	
Average stockholders' equity ⁶	\$7,718	\$8,817	\$9,295	\$10,394	\$9,473	
Average coupon ⁷	3.64	% 3.62	% 3.63	% 3.59	% 3.90	%
Average asset yield ⁸	2.68	% 2.71	% 2.63	% 2.77	% 2.82	%
Average cost of funds ⁹	(1.45)% (1.49)% (1.40)% (1.34)% (1.11)%
Average net interest rate spread	1.23	% 1.22	% 1.23	% 1.43	% 1.71	%

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Average net interest rate spread, including TBA dollar roll income ¹⁰	1.39 %	1.48 %	1.75 %	1.63 %	1.77 %
Average coupon (as of period end)	3.61 %	3.63 %	3.65 %	3.58 %	3.69 %
Average asset yield (as of period end)	2.77 %	2.78 %	2.74 %	2.70 %	2.61 %
Average cost of funds (as of period end) ¹¹	(1.44)%	(1.65)%	(1.40)%	(1.31)%	(1.22)%
Average net interest rate spread (as of period end)	1.33 %	1.13 %	1.34 %	1.39 %	1.39 %
Net comprehensive income return on average common equity ¹²	3.6 %	(3.6)%	17.3 %	(16.6)%	26.9 %
Economic return on common equity ¹³	3.9 %	(2.6)%	18.5 %	(12.5)%	32.2 %
Average "at risk" leverage ¹⁴	7.1:1	6.4:1	7.0:1	8.0:1	7.6:1
Average tangible net book value "at risk" leverage ¹⁶	7.5:1	N/A	N/A	N/A	N/A
"At risk" leverage (as of period end) ¹⁵	7.1:1	6.8:1	6.9:1	7.5:1	8.2:1
Tangible net book value "at risk" leverage (as of period end) ¹⁶	7.7:1	N/A	N/A	N/A	N/A
Expenses % of average total assets	0.18 %	0.22 %	0.21 %	0.17 %	0.17 %
Expenses % of average assets, including average net TBA position	0.16 %	0.20 %	0.18 %	0.15 %	0.16 %
Expenses % of average stockholders' equity	1.36 %	1.58 %	1.52 %	1.61 %	1.52 %

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

N/A - Not applicable

Net asset value per common share is calculated as our total stockholders' equity, less our Series A and Series B

1. Preferred Stock aggregate liquidation preference, divided by our number of common shares outstanding as of period end.

2. Tangible net asset value per common share excludes goodwill and other intangible assets, net.

We voluntarily discontinued hedge accounting for our interest rate swaps as of September 30, 2011. Please refer to our Interest Expense and Cost of Funds discussion in Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes 2 and 5 of our Consolidated Financial Statements in this Form 10-K for additional information regarding our discontinuance of hedge accounting.

The carrying value of our net TBA position represents the difference between the market value and the cost basis of the TBA contract as of period-end and is reported in derivative assets/(liabilities), at fair value on our accompanying consolidated balance sheets.

Average mortgage borrowings include repurchase agreements used to fund Agency securities ("Agency repo"), FHLB advances and debt of consolidated VIEs. Amount excludes U.S. Treasury repo agreements and TBA contracts.

6. Average stockholders' equity calculated as our average month-end stockholders' equity during the period.

7. Average coupon for the period was calculated by dividing our total coupon (or cash) interest income on investment securities by our average investment securities held at par.

8. Average asset yield for the period was calculated by dividing our total cash interest income on investment securities, adjusted for amortization of premiums and discounts, by our average amortized cost of investment securities held.

Average cost of funds includes mortgage borrowings and interest rate swap periodic costs. Amount excludes interest rate swap termination fees, forward starting swaps and costs associated with other supplemental hedges, such as interest rate swaptions and U.S. Treasury positions. Average cost of funds for the period was calculated by dividing our total cost of funds by our average mortgage borrowings outstanding for the period.

10. TBA dollar roll income/(loss) is net of short TBAs used for hedging purposes and is recognized in gain (loss) on derivative instruments and other securities, net.

Average cost of funds as of period end includes mortgage borrowings outstanding and interest rate swap hedges. Amount excludes costs associated with other supplemental hedges such as swaptions, U.S. Treasuries and TBA positions.

12. Net comprehensive income (loss) return on average common equity for the period was calculated by dividing our comprehensive income/(loss) available /(attributable) to common stockholders by our average stockholders' equity,

net of the Series A and Series B Preferred Stock aggregate liquidation preference.

13. Economic return on common equity represents the sum of the change in our net asset value per common share and our dividends declared on common stock during the period over our beginning net asset value per common share. Average "at risk" leverage is calculated by dividing the sum of our daily weighted average mortgage borrowings outstanding and our weighted average net TBA dollar position (at cost) for the period by the sum of our average stockholders' equity less our average investment in REIT equity securities for the period. Leverage excludes U.S. Treasury repurchase agreements.
14. "At risk" leverage as of period end is calculated by dividing the sum of our mortgage borrowings outstanding, our receivable/payable for unsettled investment securities and our net TBA dollar roll position outstanding 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 repurchase agreements.
15. Tangible net book value "at risk" leverage includes the components of "at risk" leverage, with stockholders' equity adjusted to exclude goodwill and other intangible assets, net.
- 16.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide a reader of AGNC Investment Corp.'s consolidated financial statements with a narrative from the perspective of management. Our MD&A is presented in eight sections:

Executive Overview

Financial Condition

Summary of Critical Accounting Estimates

Results of Operations

• Liquidity and Capital Resources

○ Off-Balance Sheet Arrangements

▲ Aggregate Contractual Obligations

✎ Forward-Looking Statements

EXECUTIVE OVERVIEW

The size and composition of our investment portfolio depends on the investment strategies we implement, the availability of investment capital and overall market conditions, including the availability of attractively priced investments and suitable financing to appropriately leverage our investment portfolio. Market conditions are influenced by, among other things, current levels of and expectations for future levels of interest rates, mortgage prepayments, market liquidity, housing prices, unemployment rates, general economic conditions, government participation in the mortgage market, evolving regulations or legal settlements that impact servicing practices or other mortgage related activities.

Trends and Recent Market Impacts

2016 proved to be a challenging year for many fixed income investments as U.S. interest rates fluctuated significantly during the year in response to changing views on economic growth both domestically and abroad. The yield on the 10 year U.S. Treasury security, for example, hit a low of 1.36% in July following the Brexit vote in the United Kingdom and a high of 2.60% in December following the U.S. Presidential election. Our view at the beginning of the year was that U.S. interest rates would remain "lower for longer," based upon the belief that global economic weakness, secular labor trends and accelerating technological advances would lead to moderate employment growth and persistently low inflation both in the U.S. and globally, thus making it difficult for the the Fed to move away from its ultra-accommodative stance on monetary policy. This view proved to be the emerging scenario for most of the year, and as a result, the Fed refrained from raising rates for most of the year. Following the unanticipated outcome of the U.S. Presidential election in November, however, the direction and level of U.S. interest rates became less certain as expectations for economic growth in the U.S. improved markedly and as the Fed raised the Federal Funds rate by 0.25% in December.

The changing interest rate landscape in the U.S. over the course of the year caused Agency RMBS to underperform swap and U.S. Treasury rates. This spread widening negatively impacted AGNC's net asset value, but also improved the return profile on new investments. In response to more favorable investment opportunities, we increased our tangible net book value "at risk" leverage to 7.7x as of December 31, 2016, from 6.8x as of December 31, 2015. Our tangible net book value excludes \$554 million of goodwill as of December 31, 2016, which we recorded in connection with our acquisition of AMM. This increase in leverage improves the earnings profile of our portfolio but also increases the sensitivity of our net asset value to fluctuations in the spread between Agency RMBS and other benchmark rates.

We also adjusted the composition of our asset portfolio during the year. Our mix of fixed rate 15 year and 30 year securities (including TBAs) remained relatively stable throughout the year, at 27% and 73%, respectively, as of December 31, 2016, but the weighted average loan age, or "seasoning," of our portfolio increased significantly over the year. As of December 31, 2016, the weighted average loan age of our 15 year and 30 year Agency RMBS positions were approximately 5.0 years and 3.4 years, respectively. In aggregate, 75% of our on-balance sheet Agency RMBS position had a weighted average loan age of at least 3.0 years as of December 31, 2016, compared to 62% as of December 31, 2015 and less than 5% was during the "taper tantrum" in 2013. The increase in the weighted average loan age of our Agency RMBS should reduce prepayment speed variability of our portfolio and, therefore, require less interest rate hedging, all other things equal.

In response to higher interest rates and the extension of the duration of our Agency RMBS, particularly in the fourth quarter, we increased the size of our hedge portfolio. As a result, our hedge ratio increased to 91% of our funding liabilities (Agency repo, TBA and other debt) as of December 31, 2016, from an intra-year low of 75% as of September 30, 2016 and from 87% as of December 31, 2015. Ongoing portfolio rebalancing actions during the year, as well as the cumulative increase in our hedge position, enabled us to keep our net asset duration gap relatively stable throughout the year. Our net asset duration gap, which is a measure of our portfolio's interest rate sensitivity, net of

hedges, was 1.1 years as of December 31, 2016, compared to 0.8 years as of December 31, 2015.

The funding landscape for Agency RMBS improved in 2016 as a result of the implementation of money market reform requirements, which took effect in October of 2016 and caused a sizable reallocation of assets from prime funds to U.S. Government bond money market funds. This shift of capital to U.S. Government money market funds was supportive of repo backed by Agency RMBS, ultimately reducing our funding costs relative to LIBOR. As we receive a floating LIBOR rate on our pay fixed/receive floating interest rate swaps, the resultant decline in the spread between our repo borrowing costs and LIBOR had the effect of lowering our all-in cost of funds on the portion of our debt that we have hedged with pay fixed swaps.

In addition, our wholly-owned captive broker-dealer subsidiary, BES, became fully operational in the third quarter of 2016 as a member of the FICC, providing us with access to additional repo funding with favorable rates and haircuts relative to traditional bilateral repo arrangements. As of December 31, 2016, we had placed approximately \$4.7 billion of repo financing at BES, providing further diversification of our funding sources and reducing our net interest expense. We anticipate transitioning a greater share of our repo funding to BES during 2017.

In the third quarter of 2016, our Board of Directors expanded our investment guidelines to include credit-sensitive assets, including CRT securities issued by the GSEs and other third parties. We believe CRT securities provide a compelling opportunity to invest in conforming credit, which has previously been the exclusive purview of the GSEs, and could provide incremental returns to our existing Agency RMBS investments over the longer term.

Our net asset value declined to \$21.17 per common share as of December 31, 2016, from \$22.59 per common share as of December 31, 2015. Our tangible net book value per common share was \$19.50 per common share as of December 31, 2016. The loss in our net asset value was predominately a result of wider spreads on agency MBS relative to benchmark interest rates and the large increase in interest rates experienced during the fourth quarter.

Our economic return on common equity was 3.9% for 2016, comprised of dividends declared per common share of \$2.30 and a loss in net asset value of \$1.42 per common share. Our total return on our common stock, which includes stock price appreciation and dividend reinvestments, was 18.2% for the year.

The widening of Agency RMBS spreads and favorable funding dynamics that occurred over the course of 2016 have improved the risk-adjusted returns on Agency RMBS investments. In addition, with AGNC's recent expansion into credit-sensitive investments, we believe that opportunistic investments in CRT securities can provide incremental returns that are less correlated with the interest rate exposure inherent in our Agency RMBS portfolio. Portfolio returns could be further supported by either higher leverage or a reduction in aggregate hedge or funding cost.

Finally, on July 1, 2016, we completed the acquisition of our external Manager, AMM, thereby internalizing our management, which lowers our operating costs and generates management fee income from managing MTGE.

Market Information

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

Interest Rate/Security Price ¹	Dec. 31, 2015	Mar. 31, 2016	June 30, 2016	Sept. 30, 2016	Dec. 31, 2016	Dec. 31, 2016 vs Dec. 31, 2015
LIBOR:						
1-Month	0.43%	0.44%	0.47%	0.53%	0.77%	+0.34bps
3-Month	0.61%	0.63%	0.65%	0.85%	1.00%	+0.39bps
6-Month	0.85%	0.90%	0.92%	1.24%	1.31%	+0.46bps
U.S. Treasury Security Rate:						
2-Year U.S. Treasury	1.06%	0.73%	0.59%	0.76%	1.20%	+0.14bps
3-Year U.S. Treasury	1.32%	0.86%	0.70%	0.87%	1.46%	+0.14bps
5-Year U.S. Treasury	1.77%	1.22%	1.01%	1.15%	1.92%	+0.15bps
10-Year U.S. Treasury	2.27%	1.78%	1.49%	1.61%	2.43%	+0.16bps
30-Year U.S. Treasury	3.01%	2.62%	2.31%	2.33%	3.05%	+0.04bps
Interest Rate Swap Rate:						
2-Year Swap	1.17%	0.85%	0.74%	1.01%	1.46%	+0.29bps
3-Year Swap	1.41%	0.96%	0.81%	1.07%	1.68%	+0.27bps
5-Year Swap	1.73%	1.18%	0.99%	1.18%	1.96%	+0.23bps
10-Year Swap	2.19%	1.64%	1.38%	1.46%	2.32%	+0.13bps
30-Year Swap	2.62%	2.13%	1.84%	1.78%	2.57%	-0.05 bps
30-Year Fixed Rate Agency Price:						
3.0%	\$100.01	\$102.59	\$103.75	\$103.95	\$99.38	-\$0.63
3.5%	\$103.18	\$104.86	\$105.50	\$105.53	\$102.50	-\$0.68
4.0%	\$105.83	\$106.86	\$107.23	\$107.41	\$105.13	-\$0.70
4.5%	\$108.00	\$108.82	\$109.17	\$109.52	\$107.51	-\$0.49
15-Year Fixed Rate Agency Price:						
2.5%	\$100.80	\$102.66	\$103.48	\$103.56	\$100.20	-\$0.60
3.0%	\$103.02	\$104.47	\$104.84	\$104.99	\$102.62	-\$0.40
3.5%	\$104.72	\$105.59	\$105.97	\$105.41	\$104.17	-\$0.55
4.0%	\$104.41	\$104.31	\$103.81	\$103.73	\$102.69	-\$1.72

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.

The following table summarizes the monthly weighted average actual one-month annualized constant prepayment rates on our investment portfolio during fiscal year 2016.

Annualized Monthly Constant Prepayment Rates ¹	Jan. 2016	Feb. 2016	Mar. 2016	Apr. 2016	May 2016	June 2016	July 2016	Aug. 2016	Sep. 2016	Oct. 2016	Nov. 2016	Dec. 2016
AGNC portfolio	10%	8%	9%	12%	11%	13%	14%	13%	16%	15%	14%	14%

¹ Weighted average actual one-month annualized CPR released at the beginning of the month based on securities held/outstanding as of the preceding month-end.

FINANCIAL CONDITION

As of December 31, 2016 and 2015, our investment portfolio consisted of \$46.5 billion and \$52.5 billion of investment securities, at fair value, respectively, and an \$11.2 billion and \$7.4 billion net long TBA position, at fair value, respectively. The following table is a summary of our investment portfolio as of December 31, 2016 and 2015 (dollars in millions):

Investment Portfolio (Includes TBAs)	December 31, 2016				December 31, 2015			
	Amortized Cost	Fair Value	Average Coupon	%	Amortized Cost	Fair Value	Average Coupon	%
Fixed rate Agency RMBS and TBA securities:								
≤ 15-year:								
≤ 15-year RMBS	\$12,794	\$12,867	3.26 %	22 %	\$16,725	\$16,865	3.25 %	28 %
15-year TBA securities	2,188	2,172	2.57 %	4 %	295	293	3.38 %	1 %
Total ≤ 15-year	14,982	15,039	3.16 %	26 %	17,020	17,158	3.25 %	29 %
20-year RMBS	801	817	3.49 %	1 %	1,061	1,088	3.48 %	2 %
30-year:								
30-year RMBS	31,553	31,052	3.63 %	54 %	32,790	32,570	3.70 %	54 %
30-year TBA securities	9,124	8,993	3.58 %	16 %	7,135	7,150	3.34 %	12 %
Total 30-year	40,677	40,045	3.62 %	70 %	39,925	39,720	3.63 %	66 %
Total fixed rate Agency RMBS and TBA securities	56,460	55,901	3.49 %	97 %	58,006	57,966	3.52 %	97 %
Adjustable rate Agency RMBS	371	379	2.96 %	1 %	484	495	3.05 %	1 %
CMO Agency RMBS:								
CMO	796	801	3.41 %	2 %	973	990	3.40 %	2 %
Interest-only strips	132	151	5.03 %	— %	152	179	5.28 %	— %
Principal-only strips	136	144	— %	— %	165	174	— %	— %
Total CMO Agency RMBS	1,064	1,096	3.89 %	2 %	1,290	1,343	3.97 %	2 %
Total Agency RMBS and TBA securities	57,895	57,376	3.50 %	100 %	59,780	59,804	3.53 %	100 %
Non-Agency RMBS	102	101	3.42 %	— %	114	113	3.50 %	— %
CMBS	23	23	6.55 %	— %	—	—	— %	— %
CRT	161	164	5.25 %	— %	—	—	— %	— %
Total investment portfolio	\$58,181	\$57,664	3.51 %	100 %	\$59,894	\$59,917	3.53 %	100 %

Our TBA position is recorded as derivative instruments in our accompanying consolidated financial statements, with the TBA dollar roll transactions representing a form of off-balance sheet financing. As of December 31, 2016 and 2015, our TBA position had a net carrying value of \$(147) million and \$14 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 cost basis or the forward price to be paid or received for the underlying Agency security.

The following tables summarize certain characteristics of our Agency RMBS fixed rate portfolio, inclusive of our net TBA position, as of December 31, 2016 and 2015 (dollars in millions):

Fixed Rate Agency RMBS and TBA Securities	December 31, 2016				% Lower Loan Balance & HARP ^{1,2}	December 31, 2015				Projected Life CPR ⁴
	Includes Net TBA Position	Excludes Net TBA Position	Includes Net TBA Position	Excludes Net TBA Position		Includes Net TBA Position	Excludes Net TBA Position	Includes Net TBA Position	Excludes Net TBA Position	
Fixed rate	Par Value	Amortized Cost	Fair Value		Amortized Cost Basis	Weighted Average WAC ³	Weighted Average Yield ⁴	Average Age (Months)		
≤ 15-year										
2.5%	\$4,877	\$ 4,945	\$4,912	26%	101.7%	2.96%	2.05%	50	9%	
3.0%	3,460	3,561	3,561	73%	102.9%	3.50%	2.20%	55	9%	
3.5%	3,294	3,408	3,450	90%	103.4%	3.95%	2.50%	63	10%	
4.0%	2,655	2,766	2,810	89%	104.2%	4.40%	2.69%	72	11%	
4.5%	285	298	302	98%	104.6%	4.87%	3.03%	76	11%	
≥ 5.0%	4	4	4	22%	103.3%	6.63%	4.65%	112	13%	
Total ≤ 15-year	14,575	14,982	15,039	65%	103.1%	3.72%	2.37%	60	10%	
20-year										
≤ 3.0%	225	223	228	31%	99.4%	3.55%	3.10%	43	8%	
3.5%	436	445	454	75%	102.2%	4.06%	3.01%	46	10%	
4.0%	54	57	58	50%	104.4%	4.54%	2.97%	64	10%	
4.5%	68	73	74	99%	106.7%	4.90%	2.99%	73	11%	
≥ 5.0%	3	3	3	—%	106.3%	5.94%	3.33%	104	17%	
Total 20-year:	786	801	817	63%	101.9%	4.03%	3.03%	49	10%	
30-year:										
3.0%	7,390	7,482	7,357	20%	100.1%	3.57%	2.97%	26	6%	
3.5%	16,365	17,227	16,849	72%	105.4%	4.07%	2.75%	38	7%	
4.0%	13,464	14,368	14,224	61%	107.4%	4.51%	2.92%	45	7%	
4.5%	1,246	1,341	1,352	87%	107.6%	4.97%	3.30%	67	8%	
5.0%	119	127	130	65%	106.8%	5.45%	3.73%	104	10%	
≥ 5.5%	120	132	133	38%	110.0%	6.20%	3.40%	122	14%	
Total 30-year	38,704	40,677	40,045	56%	105.4%	4.19%	2.86%	40	7%	
Total fixed rate	\$54,065	\$ 56,460	\$55,901	58%	104.6%	4.05%	2.73%	46	8%	

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 \$100,000 for 15-year and 30-year securities, respectively, as of December 31, 2016.

HARP securities are defined as pools backed by 100% refinance loans with LTV ≥ 80%. Our HARP securities had a weighted average LTV of 113% and 135% for 15-year and 30-year securities, respectively, as of December 31, 2016. Includes \$0.8 billion and \$5.1 billion of 15-year and 30-year securities, respectively, with >105 LTV pools, which are not deliverable into TBA securities.

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, 2016.

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Fixed Rate Agency RMBS and TBA Securities	December 31, 2015 Includes Net TBA Position				Excludes Net TBA Position				Projected Life CPR ⁴
	Par Value	Amortized Cost	Fair Value	% Lower Loan Balance & HARP ^{1,2}	Amortized Cost Basis	WAC ³	Weighted Average Yield ⁴	Age (Months)	
Fixed rate									
≤ 15-year									
≤ 2.5%	\$4,162	\$ 4,238	\$4,221	47%	101.8%	2.97%	2.04%	38	8%
3.0%	4,178	4,307	4,319	73%	103.1%	3.50%	2.22%	43	9%
3.5%	4,332	4,489	4,557	88%	103.6%	3.95%	2.53%	51	10%
4.0%	3,439	3,591	3,662	89%	104.4%	4.40%	2.71%	60	11%
4.5%	372	390	394	98%	104.9%	4.87%	3.04%	64	12%
≥ 5.0%	5	5	5	28%	103.8%	6.51%	4.54%	97	13%
Total ≤ 15-year	16,488	17,020	17,158	75%	103.2%	3.71%	2.38%	48	10%
20-year									
≤ 3.0%	287	285	294	28%	99.3%	3.55%	3.11%	31	8%
3.5%	600	613	628	64%	102.2%	4.05%	3.04%	33	10%
4.0%	66	69	70	48%	104.5%	4.54%	2.97%	52	11%
4.5%	84	90	92	99%	106.7%	4.90%	3.03%	61	10%
≥ 5.0%	4	4	4	—%	106.1%	5.92%	3.35%	92	18%
Total 20-year:	1,041	1,061	1,088	56%	101.9%	4.03%	3.06%	37	9%
30-year:									
≤ 3.0%	6,837	6,852	6,845	2%	100.6%	3.59%	2.92%	31	6%
3.5%	16,627	17,383	17,188	51%	104.7%	4.09%	2.84%	26	7%
4.0%	12,888	13,733	13,687	57%	106.7%	4.54%	2.99%	29	8%
4.5%	1,524	1,629	1,664	87%	106.8%	4.96%	3.39%	55	9%
5.0%	148	158	163	66%	106.4%	5.45%	3.74%	92	11%
≥ 5.5%	155	170	173	38%	109.5%	6.20%	3.40%	109	16%
Total 30-year	38,179	39,925	39,720	46%	105.2%	4.27%	2.93%	30	8%
Total fixed rate	\$55,708	\$ 58,006	\$57,966	55%	104.5%	4.08%	2.75%	36	8%

Lower loan balance securities represent pools backed by an original loan balance of ≤ \$150,000. Our lower loan 1. balance securities had a weighted average original loan balance of \$97,000 and \$98,000 for 15-year and 30-year securities, respectively, as of December 31, 2015.

HARP securities are defined as pools backed by 100% refinance loans with LTVs ≥ 80%. Our HARP securities had a 2. weighted average LTV of 110% and 127% for 15-year and 30-year securities, respectively, as of December 31, 2015. Includes \$0.9 billion and \$4.0 billion of 15-year and 30-year securities, respectively, with >105 LTV pools which are not deliverable into TBA securities.

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, 2015.

As of December 31, 2016 and 2015, the combined weighted average yield on our investment securities (excluding TBAs) was 2.77% and 2.78%, respectively.

Our pass-through Agency RMBS collateralized by adjustable rate mortgage loans, or ARMs, have coupons linked to various indices. As of December 31, 2016 and 2015, our ARM securities had a weighted average next reset date of 39 months and 46 months, respectively.

As of December 31, 2016 and 2015, our investments in non-Agency securities had the following credit ratings:

December 31, 2016	December 31, 2015
-------------------	----------------------

Non-Agency Security Credit Ratings ¹	CRT	RMBS	CMBS	CR RMBS	CMBS
AAA	\$—	\$ 99	\$ —	\$—	\$ 113
BBB	—	—	23	—	—
B	164	2	—	—	—
Total	\$164	\$ 101	\$ 23	\$—	\$ 113

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

Our CRT securities reference the performance of loans that have been guaranteed by Fannie Mae or Freddie Mac, subject to their underwriting standards. As of December 31, 2016, our CRT securities had floating rate coupons ranging from 4.6% to 7.1%, with weighted average coupons of underlying collateral ranging from 4.0% to 4.2%. The loans underlying our CRT securities were originated between 2015 and 2016.

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

Our critical accounting estimates relate to the recognition of interest income and the fair value of our investments and derivatives. Certain of these items involve estimates that require management to make judgments that are subjective in nature. We rely on our experience and analysis of historical and current market data in order to arrive at what we believe to be reasonable estimates. Under different conditions, we could report materially different amounts based on such estimates. The remainder of our significant accounting policies are described in Note 2 to the Consolidated Financial Statements included under Item 8 of this Annual Report on Form 10-K.

Interest Income

The effective yield on our Agency RMBS and non-Agency securities of high credit quality is highly impacted by our estimate of future prepayments. We accrue interest income based on the outstanding principal amount and their contractual terms and we amortize or accrete premiums and discounts associated with our purchase of these securities into interest income over the projected lives of the securities, including contractual payments and estimated prepayments, using the interest method. The weighted average cost basis of our securities as of December 31, 2016 was 104.7% of par value; therefore, faster actual or projected prepayments can have a meaningful negative impact, while slower actual or projected prepayments can have a meaningful positive impact, on our asset yields.

Future prepayment rates are difficult to predict and we rely on a third-party service provider and our experience and analysis of historical and current market data in order to arrive at what we believe to be reasonable estimates. We use a third-party service to provide estimates for prepayment speeds using models that incorporate the forward yield curve, current mortgage rates and 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 prepayment speeds estimated by the third-party service and, based on our judgment, we may make adjustments to their 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 plus 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.

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

At the time we purchase non-Agency securities that are not of high credit quality, we determine an effective interest rate based on our estimate of the timing and amount of cash flows and our cost basis. On at least a quarterly basis, we review the estimated cash flows and make appropriate adjustments, based on input and analysis received from external sources, internal models, and our judgment about interest rates, prepayment rates, the timing and amount of credit losses, and other factors. Any resulting changes in effective yield are recognized prospectively based on the current amortized cost of the investment as adjusted for credit impairment, if any. Our cash flow estimates for these investments are based on our judgment and observations of current information and events. These estimates include assumptions related to interest rates, prepayment rates and the timing and amount of credit losses. Furthermore, other market participants could use materially different assumptions with respect to default rates, severities, loss timing, or

prepayments. Our assumptions are subject to future events that may impact our estimates and interest income, and as a result, actual results may differ significantly from these estimates.

Fair Value of Investment Securities

We estimate the fair value of our investment securities based on a market approach using "Level 2" inputs from third-party pricing services and non-binding dealer quotes derived from common market pricing methods. Such methods incorporate, but

are not limited to, reported trades and executable bid and ask prices for similar securities, benchmark interest rate curves, such as the spread to the U.S. Treasury rate and interest rate swap curves, convexity, duration and the underlying characteristics of the particular security, including coupon, periodic and life caps, rate reset period, issuer, additional credit support and expected life of the security. We generally obtain 3 to 6 quotes or prices (referred to as "marks") per security. We attempt to validate marks obtained from pricing services and broker dealers by comparing them to our recent completed transactions involving the same or similar securities on or near the reporting date.

Changes in the market environment and other events that may occur over the life of our investments may cause the gains or losses ultimately realized on these investments to be different from the valuations currently estimated.

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

If either of the first two conditions exists as of the financial reporting date, the entire amount of the impairment loss, if any, is recognized in earnings as a realized loss and the cost basis of the security is adjusted to its fair value. However, with respect to the first condition, since the liquidity of the Agency securities market allows us to obtain competitive bids and execute on a sale transaction typically within a day of making the decision to sell a security, we generally do not make decisions to sell specific mortgage securities until shortly prior to initiating a sell order. In some instances, we may sell specific Agency securities by delivering the securities into existing short TBA contracts. TBA market conventions require the identification of the specific securities to be delivered no later than 48 hours prior to settlement. If we settle a short TBA contract through the delivery of securities, we will generally identify the specific securities to be delivered within one to two days before the 48-hour deadline.

If the third condition exists, the OTTI is separated into (i) the amount relating to credit loss (the "credit component") and (ii) the amount relating to all other factors (the "non-credit components"). Only the credit component is recognized in earnings, with the non-credit components recognized in OCI. However, in evaluating if the third condition exists, our investments in Agency securities typically would not have a credit component since the principal and interest are guaranteed by a GSE and, therefore, any unrealized loss is not the result of a credit loss. In addition, since unrealized gains and losses for securities designated as available-for-sale are recognized in OCI, any impairment loss for non-credit components is already recognized in OCI.

Derivative Financial Instruments/Hedging Activity

We use a variety of derivative instruments to reduce our exposure to market risks, including interest rate, prepayment, extension and credit risks. Our risk management objective is to reduce fluctuations in net asset value over a range of interest rate scenarios. The principal instruments that we use are interest rate swaps and swaptions. We also utilize TBA contracts for the forward purchase or sale of Agency RMBS securities on a generic pool basis and we utilize U.S. Treasury securities and U.S. Treasury futures contracts, primarily through short sales. We may also purchase or write put or call options on TBA securities and utilize other types of derivative instruments to hedge a portion of our risk.

We recognize all derivatives as either assets or liabilities on the balance sheet, measured at fair value. Since discontinuing hedge accounting in 2011, we do not designate any of our derivative instruments as hedges for GAAP accounting purposes; therefore, all changes in the fair value of our derivative instruments are reported in earnings in our consolidated statement of comprehensive income in gain (loss) on derivatives and other securities, net during the period in which they occur.

The use of derivatives creates exposure to credit risk relating to potential losses that could be recognized in the event that the counterparties to these instruments fail to perform their obligations under the contracts. We attempt to minimize this risk by limiting our counterparties to major financial institutions with acceptable credit ratings, monitoring positions with individual counterparties and adjusting posted collateral as required.

We estimate the fair value of our derivative instruments using "Level 1" inputs from unadjusted quoted prices for identical instruments in active markets or "Level 2" inputs from third-party pricing services, non-binding dealer quotes and/or daily settlement prices from central clearing exchanges, which are derived from common market pricing methods. In considering the effect of nonperformance risk on our estimate of fair value, we consider the impact of netting and credit enhancements, such as collateral postings and guarantees, and have concluded that neither our own nor our counterparty risk is significant to the overall valuation of these agreements.

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 "adjusted net 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 rate spread."

"Adjusted net interest expense" is measured as interest expense (GAAP measure) adjusted to include other interest rate swap periodic costs. "Net spread and dollar roll income" is measured as (i) net interest income (GAAP measure) adjusted to include other interest rate swap periodic costs, TBA dollar roll income, management fee income and dividends on REIT equity securities (referred to as "adjusted net interest and dollar roll income") less (ii) total operating expenses (GAAP measure) adjusted to exclude non-recurring transaction costs (referred to as "adjusted operating expenses"). "Net spread and dollar roll income, excluding 'catch-up' premium amortization," further excludes retrospective "catch-up" adjustments to premium amortization cost or benefit due to changes in projected CPR estimates.

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 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 statement of operations, 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 such measure and in "adjusted net interest expense," which are recognized under GAAP in other gain (loss), is meaningful as interest rate swaps are the primary instrument we use to economically hedge against fluctuations in our borrowing costs and inclusion of all periodic interest rate swap settlement costs is more indicative of our total cost of funds than interest expense alone. In the case of "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. We also believe the exclusion of non-recurring transactions costs reported in general, administrative and other expense under GAAP is meaningful as they represent non-recurring transaction costs associated with our acquisition of AMM and are not representative of ongoing operating costs. 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 in order 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.

FISCAL YEAR 2016 COMPARED TO FISCAL YEAR 2015

Interest Income and Asset Yield

The following table summarizes our interest income for fiscal years 2016 and 2015 (dollars in millions):

	Fiscal Year 2016		Fiscal Year 2015	
	Amount	Yield	Amount	Yield
Cash/coupon interest income	\$1,721	3.64 %	\$1,874	3.62 %
Net premium amortization	(400)	(0.96)%	(408)	(0.91)%
Interest income	\$1,321	2.68 %	\$1,466	2.71 %
Weighted average actual portfolio CPR for securities held during the period	12	%	10	%
Weighted average projected CPR for the remaining life of securities held as of period end	8	%	8	%
Average 30-year fixed rate mortgage rate as of period end ¹	4.32	%	4.01	%
10-year U.S. Treasury rate as of period end	2.43	%	2.27	%

1. Source: Freddie Mac Primary Fixed Mortgage Rate Mortgage Market Survey

The principal elements impacting our interest income are the size of our average investment portfolio and the yield on our investments. The following is a summary of the estimated impact of each of these elements on the decrease in interest income from fiscal year 2015 to 2016 (in millions):

Impact of Changes in the Principal
Elements Impacting Interest Income
Fiscal Year 2016 vs. 2015

Total Increase / (Decrease)	Due to Change in Average	
	Portfolio Size	Asset Yield
Interest Income \$ (145)	\$(129)	\$(16)

The size of our average investment portfolio decreased in par value, compared to the prior year period, by 9% for fiscal year 2016. The decline was largely due to a relative shift from investments recognized as securities on our consolidated financial statements to investments in TBA contracts recognized as derivative assets/(liabilities) on our consolidated financial statements and a decline in our stockholders' equity due to share repurchases and price declines on our portfolio, net of hedges.

Our average asset yield was down slightly at 2.68% for fiscal year 2016, compared to 2.71% for the prior year. Excluding "catch-up" premium amortization cost due to changes in our projected CPR estimates, our average asset yield was 2.70% for fiscal year 2016, compared to 2.72% for the prior year period. The yield decline in our average asset was largely due to changes in our portfolio composition.

Leverage

Our primary measures of leverage are our "at risk" leverage and our tangible net book value "at risk" leverage ratio. "At risk" leverage is measured as the sum of our mortgage borrowings (consisting of repurchase agreements used to fund our investment securities ("Agency repo"), FHLB advances and debt of consolidated VIEs), net TBA position (at cost) and our net receivable/payable for unsettled investment securities divided by the sum of our total stockholders' equity. Tangible net book value "at risk" leverage includes adjustments to exclude goodwill and other intangible assets, net of accumulated amortization, related to our acquisition of AMM from stockholders' equity.

We include our net TBA position in our measures of leverage because a long TBA position carries similar risks as if we had purchased the underlying Agency RMBS and funded the purchases with on-balance sheet funding liabilities. Similarly, a short TBA position 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 dollar roll positions). Repurchase agreements used to fund short-term investments in U.S. Treasury securities ("U.S. Treasury repo") are excluded from our measures of leverage due to the temporary and highly liquid nature of these investments.

Our total "at risk" leverage was 7.1x and 6.8x our stockholders' equity as of December 31, 2016 and 2015, respectively. Our tangible net book value "at risk" leverage was 7.7x our tangible stockholders' equity as of December 31, 2016. The table below presents our average and quarter-end mortgage borrowings, net TBA position and leverage ratios for each of the three month periods listed below (dollars in millions):

Quarter Ended	Mortgage Borrowings ¹			Net TBA Position Long/(Short) ²		Average Total "At Risk" Leverage during the Period ³	Tangible Net Book Value	"At Risk" Leverage as of Period End ⁵	Tangible Net Book Value
	Average Daily Amount	Maximum Daily Amount	Ending Amount	Average Daily Amount	Ending Amount		Average Total "At Risk" Leverage during the Period ⁴		as of Period End ⁴
December 31, 2016	\$41,031	\$42,157	\$41,183	\$14,141	\$11,312	7.3:1	7.8:1	7.1:1	7.7:1
September 30, 2016	\$44,401	\$46,555	\$41,154	\$10,748	\$15,540	7.1:1	7.6:1	7.2:1	7.7:1
June 30, 2016	\$46,948	\$48,875	\$45,502	\$8,238	\$6,975	7.2:1	N/A	7.2:1	N/A
March 31, 2016	\$45,926	\$49,767	\$48,875	\$8,144	\$5,983	7.0:1	N/A	7.3:1	N/A
December 31, 2015	\$47,018	\$50,078	\$46,077	\$7,796	\$7,430	6.8:1	N/A	6.8:1	N/A
September 30, 2015	\$43,308	\$46,049	\$44,683	\$9,434	\$7,265	6.2:1	N/A	6.8:1	N/A
June 30, 2015	\$50,410	\$55,097	\$45,860	\$5,973	\$7,104	6.2:1	N/A	6.1:1	N/A
March 31, 2015	\$53,963	\$58,217	\$55,056	\$6,957	\$4,815	6.5:1	N/A	6.4:1	N/A

¹ Mortgage borrowings includes Agency repo, FHLB advances and debt of consolidated VIEs. Amounts exclude U.S. Treasury repo agreements.

² Daily average and ending net TBA position outstanding measured at cost.

³ Average "at risk" leverage during the period was calculated by dividing the sum of our daily weighted average mortgage borrowings outstanding and our daily weighted average net TBA position (at cost) during the period by the sum of our average month-end stockholders' equity less our average investment in REIT equity securities for the period.

⁴ Tangible net book value "at risk" leverage includes the components of "at risk" leverage with stockholders' equity adjusted to exclude goodwill and other intangible assets, net.

⁵ "At risk" leverage as of period end was calculated by dividing the sum of the amount of mortgage borrowings outstanding, net payables and receivables for unsettled investment securities and the cost basis (or contract price) of our net TBA position by the sum of our total stockholders' equity less the fair value of our investment in REIT equity securities at period end.

Interest Expense and Cost of Funds

Our interest expense is comprised of interest expense on our mortgage borrowings (primarily comprised of Agency repo) and the reclassification of accumulated OCI into interest expense related to previously de-designated interest rate swaps. Upon our election to discontinue hedge accounting under GAAP as of September 30, 2011, the net deferred loss related to our de-designated interest rate swaps remained in accumulated OCI and has been reclassified from accumulated OCI into interest expense on a straight-line basis over the remaining term of each interest rate swap through fiscal year 2016.

Our "adjusted net interest expense," also referred to as our "cost of funds" when stated as a percentage of our mortgage borrowings outstanding, includes periodic interest costs on our interest rate swaps reported in gain/loss on

derivative instruments and other securities, net in our consolidated statements of comprehensive income. Our cost of funds does not include swap termination fees, forward starting swaps and costs associated with our other supplemental hedges, such as swaptions and U.S. Treasury positions. Our cost of funds also does not include the implied financing cost of our net TBA dollar roll position, although it includes interest rate swap hedge costs related to our TBA dollar roll funded assets. Consequently, our cost of funds measured as a percentage of our outstanding mortgage borrowings is higher than if we allocated a portion of our swap hedge costs to our TBA dollar roll funded assets.

Our average cost of funds declined to 1.45% for fiscal year 2016, compared to 1.49% for the prior year period. The table below presents a reconciliation of our interest expense (the most comparable GAAP financial measure) to our adjusted net interest expense and cost of funds (non-GAAP financial measures) for fiscal years 2016 and 2015 (dollars in millions):

	Fiscal Year 2016	Fiscal Year 2015
Adjusted Net Interest Expense and Cost of Funds	Amount ¹	Amount ¹
Interest expense:		
Interest expense on mortgage borrowings	\$355 0.79%	\$229 0.47%
Periodic interest costs of interest rate swaps previously designated as hedges under GAAP, net	39 0.09%	101 0.21%
Total interest expense	394 0.88%	330 0.68%
Other periodic interest costs of interest rate swaps, net	255 0.57%	393 0.81%
Total adjusted net interest expense and cost of funds	\$649 1.45%	\$723 1.49%

1. Percent of our average mortgage borrowings outstanding for the period.

The principal elements impacting our adjusted net interest expense are the size of our average mortgage borrowings outstanding during the period, the size of our average interest rate swap balance outstanding (excluding forward starting swaps), the average interest rate on our borrowings and the average net pay rate on our pay-fixed receive-floating interest rate swaps. The following is a summary of the estimated impact of each of these elements impacting the decrease in our adjusted net interest expense for fiscal year 2016, compared to the prior year period (in millions):

Impact of Changes in the Principal Elements of Adjusted Net Interest Expense
Fiscal Year 2016 vs. 2015

	Total Increase / (Decrease)	Due to Change in Average Borrowing / Swap Balance	Borrowing / Swap Rate
Interest expense on mortgage borrowings	\$ 126	\$(21)	\$ 147
Periodic interest rate swap costs ¹	(200)	(23)	(177)
Total change in adjusted net interest expense	\$ (74)	\$(44)	\$ (30)

1. Includes amounts recognized in interest expense and in gain (loss) on derivatives and other securities, net in our consolidated statements of comprehensive income. The change due to interest rate reflects the net impact of the change in the weighted average fixed pay and variable receive rates.

The average interest rate on our borrowings increased for fiscal year 2016 by 32 bps, which was largely a function of Fed Funds rate increases in December of 2015 and 2016. The size of our average borrowings outstanding decreased 8% for the year, which was largely due to the combination of a relative shift from Agency RMBS to TBA holdings and portfolio adjustments due to the decline in our average shareholders' equity. As shown in the tables below, the size of our interest rate swap portfolio increased relative to our mortgage borrowings, but decreased overall in both absolute dollar terms and relative to the combined total of our mortgage borrowings and TBA securities outstanding during the year. We generally ran a lower interest rate hedge ratio through-out much of 2016, compared to the prior year, before increasing our hedge ratio during the fourth quarter of 2016. The decline in the average net pay rate on our pay-fixed receive-floating interest rate swaps was a function of both a lower average pay-fixed rate and a higher average receive-floating rate.

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The table below presents a summary of our average mortgage borrowings and our average interest rates swaps outstanding, excluding forward starting swaps, for fiscal years 2016 and 2015 (dollars in millions):

	Fiscal Year			
	2016		2015	
Average Ratio of Interest Rate Swaps Outstanding (Excluding Forward Starting Swaps) to Mortgage Borrowings Outstanding				
Average mortgage borrowings	\$44,566		\$48,641	
Average notional amount of interest rate swaps (excluding forward starting swaps)	\$33,541		\$35,220	
Average ratio of interest rate swaps to mortgage borrowings	75	%	72	%
Weighted average pay rate on interest rate swaps	1.56	%	1.68	%
Weighted average receive rate on interest rate swaps	(0.69)%	(0.28)%
Weighted average net pay rate on interest rate swaps	0.87	%	1.40	%

For the fiscal year ended 2016, we had an average balance of \$4.8 billion of forward starting interest rate swaps outstanding, compared to \$10.2 billion for the prior year period. Forward starting interest rate swaps do not impact our adjusted net interest expense and cost of funds until they commence accruing net interest settlements on their forward start dates. We enter into forward starting interest rate swaps based on a variety of factors, including our view of the forward yield curve and the timing of potential changes in short-term interest rates, time to deploy new capital, amount and timing of expirations of our existing interest rate swap portfolio, current and anticipated swap spreads and our desire to mitigate our exposure to specific sectors of the yield curve.

Including forward starting swaps and our net TBA position, our average ratio of interest rate swaps outstanding to our average mortgage borrowings and net TBA position (at cost) was 70% for fiscal year 2016, compared to 81% for fiscal year 2015.

	Fiscal Year	
	2016	2015
Average Ratio of Interest Rate Swaps Outstanding (Including Forward Starting Swaps) to Mortgage Borrowings and Net TBA Position		
Average mortgage borrowings	\$44,566	\$48,641
Average net TBA position - at cost	10,329	7,547
Total average mortgage borrowings and net TBA position	\$54,895	\$56,188
Average notional amount of interest rate swaps (including of forward starting swaps)	\$38,362	\$45,446
Average ratio of interest rate swaps to mortgage borrowings and net TBA position	70	% 81 %
Net Spread and Dollar Roll Income		

The table below presents a reconciliation of our net interest income (the most comparable GAAP financial measure) to our net spread and dollar roll income and to our net spread and dollar roll income, excluding estimated "catch-up" premium amortization cost, (non-GAAP financial measures) for fiscal years 2016 and 2015 (dollars in millions):

	Fiscal Year	
	2016	2015
Net interest income	\$927	\$1,136
Other periodic interest costs of interest rate swaps, net ¹	(255)	(393)
TBA dollar roll income ¹	216	237
Management fee income	8	—
Dividend from REIT equity securities ¹	2	6
Adjusted net interest and dollar roll income	898	986
Operating expenses:		
Total operating expenses	105	139
Non-recurring transaction costs	(9)	—
Adjusted operating expenses	96	139
Net spread and dollar roll income	802	847
Dividend on preferred stock	28	28
Net spread and dollar roll income available to common stockholders	774	819
Estimated "catch-up" premium amortization cost due to change in CPR forecast	10	1
Net spread and dollar roll income, excluding "catch-up" premium amortization, available to common stockholders	\$784	\$820
Weighted average number of common shares outstanding - basic and diluted	331.9	348.6
Net spread and dollar roll income per common share - basic and diluted	\$2.33	\$2.35
Net spread and dollar roll income, excluding "catch-up" premium amortization, per common share - basic and diluted	\$2.36	\$2.35

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

Net spread and dollar roll income, excluding "catch-up" premium amortization adjustments, for fiscal year 2016 was largely unchanged at \$2.36 per common share compared to \$2.35 per common share for the prior year period, as the decline in our interest and TBA dollar roll income was largely offset by the decline in our funding costs, net of interest rate swap hedges, and lower operating costs as a function of our management internalization at the start of the third quarter.

Our average net interest rate spread and dollar roll income (i.e., the difference between the average yield on our assets and our average cost of funds inclusive of TBAs), excluding catch-up premium amortization cost, was 1.41% for fiscal year 2016,

compared to 1.48% for the prior year period. Including catch-up premium amortization adjustments, our net interest rate spread and dollar roll income was 1.39% for fiscal year 2016, compared to 1.48%, respectively.

Gain (Loss) on Sale of Investment Securities, Net

The following table is a summary of our net gain (loss) on sale of investment securities for fiscal years 2016 and 2015 (in millions):

	Fiscal Year	
	2016	2015
Investment securities sold, at cost	\$(17,907)	\$(27,578)
Proceeds from sale ¹	18,016	27,555
Net gain (loss) on sale of investment securities	\$109	\$(23)
Gross gain on sale of investment securities	\$123	\$98
Gross loss on sale of investment securities	(14)	(121)
Net gain (loss) on sale of investment securities	\$109	\$(23)

¹ Proceeds include cash received during the period, plus receivable for investment securities sold during the period as of period end.

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

The following table is a summary of our gain (loss) on derivative instruments and other securities, net for fiscal years 2016 and 2015 (in millions):

	Fiscal Year	
	2016	2015
Periodic interest costs of interest rate swaps, net	\$(255)	\$(393)
Realized gain (loss) on derivative instruments and other securities, net:		
TBA securities - dollar roll income, net	216	237
TBA securities - mark-to-market net gain (loss)	(114)	246
Payer swaptions	(30)	(77)
Receiver swaptions	—	15
U.S. Treasury securities - long position	7	(33)
U.S. Treasury securities - short position	(85)	(72)
U.S. Treasury futures - short position	(12)	(21)
Interest rate swap termination fees	(1,145)	(327)
REIT equity securities	—	4
Other	8	1
Total realized loss on derivative instruments and other securities, net	(1,155)	(27)
Unrealized gain (loss) on derivative instruments and other securities, net:		
TBA securities - mark-to-market net gain (loss)	(161)	(178)
Interest rate swaps	1,003	(212)
Payer swaptions	27	42
Receiver swaptions	—	(11)
U.S. Treasury securities - long position	—	(5)
U.S. Treasury securities - short position	219	4
U.S. Treasury futures - short position	7	9
Debt of consolidated VIEs	(3)	16
REIT equity securities	9	(9)
Other	(1)	—
Total unrealized gain (loss) on derivative instruments and other securities, net	1,100	(344)
Total loss on derivative instruments and other securities, net	\$(310)	\$(764)

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

Operating Expenses

Prior to our acquisition of AMM and related management internalization on July 1, 2016, we paid our Manager a management fee payable monthly in arrears in an amount equal to one-twelfth of 1.25% of our month-end stockholders' equity, adjusted to exclude the effect of any unrealized gains or losses included in either retained earnings or accumulated OCI, each as computed in accordance with GAAP. There was no incentive compensation payable to our Manager pursuant to the management agreement. We incurred management fees of \$52 million and \$116 million for fiscal year 2016 and 2015, respectively. Following our management internalization, we no longer incur a management fee, but we incur expenses associated with an internally managed organization, including compensation expense previously borne by our Manager. For fiscal year 2016, we had compensation and benefits expense of \$19 million, consisting primarily of base salary, accrued bonuses and benefits expense, including approximately \$2 million of accrued retention bonuses made to certain members of AMM's legacy work-force at the time of our Internalization.

We had a negligible amount of equity-based compensation expense during 2016, as our 2016 Equity and Incentive Compensation Plan ("2016 Equity Plan") was not approved by stockholders until December 9, 2016. Our 2016 Equity Plan provides for grants of equity-based compensation to our employees in order to both attract, motivate and retain high quality employees and align our employees' interests with the interests of our stockholders. We expect the equity-based compensation component of our total compensation and benefits expense to increase in future periods as we grant awards to employees under the Plan and expense them over subsequent periods.

We incurred other operating expenses of \$34 million and \$23 million for fiscal year 2016 and 2015, respectively, which primarily consisted of prime broker fees, information technology costs, accounting fees, legal fees, Board of Director fees, insurance expense and general overhead expenses. For fiscal year 2016, our other operating expenses included \$9 million of non-recurring transaction costs and approximately \$2 million of intangible asset amortization expense associated with our acquisition of AMM.

Our total annualized operating expense as a percentage of our average stockholders' equity was 1.36% and 1.58% for fiscal years 2016 and 2015, respectively.

Dividends and Income Taxes

For fiscal years 2016 and 2015, we had estimated taxable income available to common stockholders of \$260 million and \$431 million (or \$0.78 and \$1.24 per 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 fiscal years 2016 and 2015 (dollars in millions, except per share amounts):

	Fiscal Year	
	2016	2015
Net income (loss)	\$623	\$215
Estimated book to tax differences:		
Premium amortization, net	(46)	(32)
Realized gain/loss, net	1,034	14
Net capital loss/(utilization of net capital loss carryforward)	(232)	(77)
Unrealized gain/loss, net	(1,094)	339
Other	3	—
Total book to tax differences	(335)	244
Estimated REIT taxable income	288	459
Dividend on preferred stock	28	28
Estimated REIT taxable income available to common stockholders	\$260	\$431
Weighted average number of common shares outstanding - basic and diluted	331.9	348.6
Estimated REIT taxable income per common share - basic and diluted	\$0.78	\$1.24

Beginning cumulative non-deductible net capital loss	\$684	\$761
Utilization of net capital loss carryforward	(232)	(77)
Ending cumulative non-deductible net capital loss	\$452	\$684
Ending cumulative non-deductible net capital loss per ending common share	\$1.37	\$2.03

As of December 31, 2016, we had \$0.5 billion (or \$1.37 per common share) of net capital loss carryforwards, which can be carried forward and applied against future net capital gains through fiscal year 2018.

As of December 31, 2016 and 2015, we had distributed all of our estimated taxable income for fiscal years 2016 and 2015, respectively. Accordingly, we do not expect to incur an income tax or excise tax liability on our 2016 taxable income, nor did we incur such liabilities on our 2015 taxable income.

The following table summarizes dividends declared on our Series A Preferred Stock, depositary shares underlying our Series B Preferred Stock and common stock during fiscal years 2016 and 2015:

Quarter Ended	Dividends Declared per Share		
	Series A Preferred Stock	Series B Preferred Stock (Per Depositary Share)	Common Stock
December 31, 2016	\$0.50000	\$0.484375	\$ 0.54
September 30, 2016	\$0.50000	\$0.484375	\$ 0.56
June 30, 2016	\$0.50000	\$0.484375	\$ 0.60
March 31, 2016	\$0.50000	\$0.484375	\$ 0.60
Total	\$2.00000	\$1.937500	\$ 2.30
December 31, 2015	\$0.50000	\$0.484375	\$ 0.60
September 30, 2015	\$0.50000	\$0.484375	\$ 0.60
June 30, 2015	\$0.50000	\$0.484375	\$ 0.62
March 31, 2015	\$0.50000	\$0.484375	\$ 0.66
Total	\$2.00000	\$1.937500	\$ 2.48

Other Comprehensive Income (Loss)

Other comprehensive income (loss) primarily consists of unrealized gains and losses on our securities designated as "available-for-sale" (see Note 2 to our Consolidated Financial Statements in this Form 10-K). The following table summarizes the components of our other comprehensive income (loss) for fiscal years 2016 and 2015 (in millions):

	Fiscal Year	
	2016	2015
Unrealized gain (loss) on available-for-sale securities, net:		
Unrealized loss, net	\$(261)	\$(620)
Reversal of prior period unrealized (gain) loss, net, upon realization	(109)	23
Unrealized loss on available-for-sale securities, net:	(370)	(597)
Unrealized gain on interest rate swaps designated as cash flow hedges:		
Reversal of prior period unrealized loss on interest rate swaps, net, upon reclassification to interest expense	39	101
Total other comprehensive loss	\$(331)	\$(496)

For fiscal years 2016 and 2015, we had net unrealized gains/(losses) on investment securities measured at fair value through net income of \$(6) million and \$5 million, respectively.

FISCAL YEAR 2015 COMPARED TO FISCAL YEAR 2014:

Interest Income and Asset Yield

The following table summarizes our interest income for fiscal years 2015 and 2014 (dollars in millions):

	Fiscal Year 2015		Fiscal Year 2014	
	Amount	Yield	Amount	Yield
Cash/coupon interest income	\$1,874	3.62 %	\$1,945	3.63 %
Net premium amortization	(408)	(0.91)%	(473)	(1.00)%
Interest income	\$1,466	2.71 %	\$1,472	2.63 %
Weighted average actual portfolio CPR for securities held during the period	10	%	9	%
Weighted average projected CPR for the remaining life of securities held as of period end	8	%	9	%
Average 30-year fixed rate mortgage rate as of period end ¹	4.01	%	3.87	%
10-year U.S. Treasury rate as of period end	2.27	%	2.17	%

1. Source: Freddie Mac Primary Fixed Mortgage Rate Mortgage Market Survey

The following is a summary of the estimated impact of the principal elements impacting our interest income on the decrease in interest income from fiscal year 2014 to 2015 (in millions):

Impact of Changes in the Principal Elements Impacting Interest Income
Fiscal Year 2015 vs. 2014

	Total Increase / (Decrease)	Due to Change in Average Portfolio Asset Size	Yield
Interest Income	\$ (6)	\$(53)	\$ 47

The size of our average investment portfolio decreased in par value, compared to the prior year period, by 3% for fiscal year 2015. The decline was largely due to a relative shift from investments recognized as securities on our consolidated financial statements to investments in TBA securities recognized as derivative assets/liabilities on our consolidated financial statements.

Our average asset yield differed from the prior year period largely due to fluctuations in "catch-up" premium amortization cost recognized due to changes in our projected CPR estimates. We recognized "catch-up" premium amortization cost of \$1 million for fiscal year 2015, compared to \$53 million for the prior year period. Excluding "catch-up" premium amortization cost, our average asset yield was 2.72% for fiscal year 2015, unchanged from fiscal year 2014.

Leverage

Our total "at risk" leverage was 6.8x and 6.9x our stockholders' equity as of December 31, 2015 and 2014, respectively. The table below presents our average and quarter-end mortgage borrowings, net TBA position and "at risk" leverage ratios for each of the three month periods listed below (dollars in millions):

Quarter Ended	Mortgage Borrowings ¹			Net TBA Position Long / (Short) ²		Average Total "At Risk" Leverage during the Period ^{1,3}	"At Risk" Leverage as of Period End ^{1,4}
	Average Daily Amount	Maximum Daily Amount	Ending Amount	Average Daily Amount	Ending Amount		

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December 31, 2015	\$47,018	\$ 50,078	\$46,077	\$7,796	\$7,430	6.8:1	6.8:1
September 30, 2015	\$43,308	\$ 46,049	\$44,683	\$9,434	\$7,265	6.2:1	6.8:1
June 30, 2015	\$50,410	\$ 55,097	\$45,860	\$5,973	\$7,104	6.2:1	6.1:1
March 31, 2015	\$53,963	\$ 58,217	\$55,056	\$6,957	\$4,815	6.5:1	6.4:1
December 31, 2014	\$45,554	\$ 49,170	\$49,150	\$18,492	\$14,576	6.9:1	6.9:1
September 30, 2014	\$46,694	\$ 50,989	\$44,368	\$15,680	\$17,769	6.7:1	6.7:1
June 30, 2014	\$50,448	\$ 52,945	\$48,362	\$13,963	\$18,184	7.1:1	6.9:1
March 31, 2014	\$57,544	\$ 63,117	\$50,454	\$4,534	\$14,127	7.2:1	7.6:1

1. Mortgage borrowings includes Agency repo, FHLB advances and debt of consolidated VIEs. Amounts exclude U.S. Treasury repo agreements.

2. Daily average and ending net TBA position outstanding measured at cost.

Average "at risk" leverage during the period was calculated by dividing the sum of our daily weighted average mortgage borrowings and net TBA position (at cost) outstanding by the sum of our average month-end stockholders' equity less our average investment in REIT equity securities.

"At risk" leverage as of period end was calculated by dividing the sum of the amount of mortgage borrowings outstanding, net payable and receivables for unsettled Agency securities and the cost basis of our net TBA position (at cost) by the sum of our total stockholders' equity less the fair value of our investment in REIT equity securities.

Interest Expense and Cost of Funds

Our average cost of funds increased to 1.49% for fiscal year 2015, compared to 1.40% for the prior year period. The table below presents a reconciliation of our interest expense (the most comparable GAAP financial measure) to our adjusted net interest expense and cost of funds (non-GAAP financial measures) for fiscal years 2015 and 2014 (dollars in millions):

	Fiscal Year 2015	Fiscal Year 2014
	Amount ¹	Amount ¹
Adjusted Net Interest Expense and Cost of Funds		
Interest expense:		
Interest expense on mortgage borrowings	\$229 0.47%	\$216 0.43%
Periodic interest costs of interest rate swaps previously designated as hedges under GAAP, net	101 0.21%	156 0.31%
Total interest expense	330 0.68%	372 0.74%
Other periodic interest costs of interest rate swaps, net	393 0.81%	330 0.66%
Total adjusted net interest expense and cost of funds	\$723 1.49%	\$702 1.40%

1. Percent of our average mortgage borrowings outstanding for the period annualized.

The following is a summary of the estimated impact of the principal elements impacting the increase in our adjusted net interest expense for fiscal year 2015, compared to the prior year period (in millions):

Impact of Changes in the Principal Elements of Adjusted Net Interest

Expense

Fiscal Year 2015 vs. 2014

	Total Increase / (Decrease)	Due to Change in Average Borrowing / Swap Rate Balance
Interest expense on mortgage borrowings	\$ 13	\$(6) \$ 19
Periodic interest rate swap costs ¹	8	18 (10)
Total change in adjusted net interest expense	\$ 21	\$12 \$ 9

1. Includes amounts recognized in interest expense and in gain (loss) on derivatives and other securities, net in our consolidated statements of comprehensive income. The change due to interest rate reflects the net impact of the change in the weighted average fixed pay and variable receive rates.

The table below presents a summary of our average mortgage borrowings and our average interest rates swaps outstanding, excluding forward starting swaps, for fiscal years 2015 and 2014 (dollars in millions):

	Fiscal Year			
	2015		2014	
Average Ratio of Interest Rate Swaps Outstanding (Excluding Forward Starting Swaps) to Mortgage Borrowings Outstanding				
Average mortgage borrowings	\$48,641		\$50,015	
Average notional amount of interest rate swaps (excluding forward starting swaps)	\$35,220		\$33,988	
Average ratio of interest rate swaps to mortgage borrowings	72	%	68	%
Weighted average pay rate on interest rate swaps	1.68	%	1.64	%
Weighted average receive rate on interest rate swaps	(0.28)%	(0.21)%
Weighted average net pay rate on interest rate swaps	1.40	%	1.43	%

For the fiscal year ended 2015, we had an average balance of \$10.2 billion of forward starting interest rate swaps outstanding, compared to \$2.4 billion for fiscal year 2014. Including forward starting swaps and our net TBA position, our average ratio of interest rate swaps outstanding to our average mortgage borrowings and net TBA position (at cost) was 81% for fiscal year 2015, compared to 58% for fiscal year 2014.

	Fiscal Year	
	2015	2014
Average Ratio of Interest Rate Swaps Outstanding (Including Forward Starting Swaps) to Mortgage Borrowings and Net TBA Position		
Average mortgage borrowings	\$48,641	\$50,015
Average net TBA position - at cost	7,547	13,212
Total average mortgage borrowings and net TBA position	\$56,188	\$63,227
Average notional amount of interest rate swaps (including of forward starting swaps)	\$45,446	\$36,408
Average ratio of interest rate swaps to mortgage borrowings and net TBA position	81	% 58 %

Net Spread and Dollar Roll Income

The table below presents a reconciliation of our net interest income (the most comparable GAAP financial measure) to our net spread and dollar roll income and to our net spread and dollar roll income, excluding estimated "catch-up" premium amortization cost, (non-GAAP financial measures) for fiscal years 2015 and 2014 (dollars in millions):

	Fiscal Year	
	2015	2014
Net interest income	\$1,136	\$1,100
Other periodic interest costs of interest rate swaps, net ¹	(393)	(330)
TBA dollar roll income ¹	237	20
Dividend from REIT equity securities ¹	6	505
Adjusted net interest and dollar roll income	986	1,295
Operating expenses	139	141
Net spread and dollar roll income	847	1,154
Dividend on preferred stock	28	23
Net spread and dollar roll income available to common stockholders	819	1,131
Estimated "catch-up" premium amortization cost due to change in CPR forecast	1	53
Net spread and dollar roll income, excluding "catch-up" premium amortization, available to common stockholders	\$820	\$1,184
Weighted average number of common shares outstanding - basic and diluted	348.6	353.3
Net spread and dollar roll income per common share - basic and diluted	\$2.35	\$3.20
Net spread and dollar roll income, excluding "catch-up" premium amortization, per common share - basic and diluted	\$2.35	\$3.35

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

Net spread and dollar roll income, excluding "catch-up" premium amortization adjustments, for fiscal year 2015 decreased to \$2.35 from \$3.35 per common share for fiscal year 2014, largely due to higher repo costs and a decline in TBA dollar roll income relative to our average TBA position, partially offset by higher "at risk" leverage and lower operating costs.

Our average net interest rate spread and dollar roll income (i.e., the difference between the average yield on our assets and our average cost of funds inclusive of TBAs), excluding catch-up premium amortization cost, was 1.48% for fiscal year 2015, compared to 1.83% for fiscal year 2014. Including catch-up premium amortization adjustments, our net interest rate spread and dollar roll income was 1.48% for fiscal year 2015, compared to 1.75%, for fiscal year 2014.

Gain (Loss) on Sale of Investment Securities, Net

The following table is a summary of our net gain (loss) on sale of investment securities for fiscal years 2015 and 2014 (in millions):

	Fiscal Year	
	2015	2014
Investment securities sold, at cost	\$(27,578)	\$(30,123)
Proceeds from sale ¹	27,555	30,174
Net gain (loss) on sale of investment securities	\$(23)	\$51
Gross gain on sale of investment securities	\$98	\$172
Gross loss on sale of investment securities	(121)	(121)
Net gain (loss) on sale of investment securities	\$(23)	\$51

1. Proceeds include cash received during the period, plus receivable for MBS sold during the period as of period end.

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

The following table is a summary of our gain (loss) on derivative instruments and other securities, net for fiscal years 2015 and 2014 (in millions):

	Fiscal Year	
	2015	2014
Periodic interest costs of interest rate swaps, net	\$(393)	\$(330)
Realized gain (loss) on derivative instruments and other securities, net:		
TBA securities - dollar roll income, net	237	505
TBA securities - mark-to-market net gain (loss)	246	416
Payer swaptions	(77)	(171)
Receiver swaptions	15	(1)
U.S. Treasury securities - long position	(33)	7
U.S. Treasury securities - short position	(72)	(378)
U.S. Treasury futures - short position	(21)	(34)
Interest rate swap termination fees	(327)	(127)
REIT equity securities	4	71
Other	1	(10)
Total realized gain (loss) on derivative instruments and other securities, net	(27)	278
Unrealized gain (loss) on derivative instruments and other securities, net:		
TBA securities - mark-to-market net gain (loss)	(178)	196
Interest rate swaps	(212)	(1,381)
Payer swaptions	42	(22)
Receiver swaptions	(11)	12
U.S. Treasury securities - long position	(5)	59
U.S. Treasury securities - short position	4	(42)
U.S. Treasury futures - short position	9	(42)
Debt of consolidated VIEs	16	(10)
REIT equity securities	(9)	4
Other	—	3
Total unrealized gain (loss) on derivative instruments and other securities, net	(344)	(1,223)
Total gain (loss) on derivative instruments and other securities, net	\$(764)	\$(1,275)

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

Management Fees and General and Administrative Expenses

We incurred management fees of \$116 million and \$119 million for fiscal year 2015 and 2014, respectively. The decline in our management fees was a function of our smaller capital base due to the combination of share repurchases and net losses realized on our portfolio. General and administrative expenses were \$23 million and \$22 million for fiscal year 2015 and 2014, respectively. Our general and administrative expenses primarily consisted of prime broker fees, information technology costs, accounting fees, legal fees, Board of Director fees, insurance expense and general overhead expense. Our total annualized operating expense as a percentage of our average stockholders' equity was 1.58% and 1.52% for fiscal years 2015 and 2014, respectively.

Dividends and Income Taxes

For fiscal years 2015 and 2014, we had estimated taxable income available to common stockholders of \$431 million and \$439 million (or \$1.24 and \$1.24 per common share), respectively.

The following is a reconciliation of our GAAP net income to our estimated taxable income for fiscal years 2015 and 2014 (dollars in millions, except per share amounts):

	Fiscal Year	
	2015	2014
Net income (loss)	\$215	\$(233)
Estimated book to tax differences:		
Premium amortization, net	(32)	34
Realized gain/loss, net	14	495
Net capital loss/(utilization of net capital loss carryforward)	(77)	(1,024)
Unrealized gain/loss, net	339	1,191
Other	—	(1)
Total book to tax differences	244	695
Estimated REIT taxable income	459	462
Dividend on preferred stock	28	23
Estimated REIT taxable income available to common stockholders	\$431	\$439
Weighted average number of common shares outstanding - basic and diluted	348.6	353.3
Estimated REIT taxable income per common share - basic and diluted	\$1.24	\$1.24
Beginning cumulative non-deductible net capital loss	\$761	\$1,785
Utilization of net capital loss carryforward	(77)	(1,024)
Ending cumulative non-deductible net capital loss	\$684	\$761
Ending cumulative non-deductible net capital loss per ending common share	\$2.03	\$2.16

For fiscal years 2015 and 2014, we distributed all of our taxable income within the limits prescribed by the Internal Revenue Code. Accordingly, we did not incur an income tax or excise tax liability on our 2015 and 2014 taxable income.

The following table summarizes dividends declared on our Series A Preferred Stock, depositary shares underlying our Series B Preferred Stock and common stock during fiscal years 2015 and 2014:

Quarter Ended	Dividends Declared per Share		
	Series A Preferred Stock	Series B Preferred Stock (Per Depositary Share)	Common Stock
December 31, 2015	\$0.50000	\$0.484375	\$ 0.60
September 30, 2015	\$0.50000	\$0.484375	\$ 0.60
June 30, 2015	\$0.50000	\$0.484375	\$ 0.62
March 31, 2015	\$0.50000	\$0.484375	\$ 0.66
Total	\$2.00000	\$1.937500	\$ 2.48
December 31, 2014	\$0.50000	\$0.484375	\$ 0.66
September 30, 2014	\$0.50000	\$0.484375	\$ 0.65
June 30, 2014	\$0.50000	\$0.360590	\$ 0.65
March 31, 2014	\$0.50000	\$—	\$ 0.65
Total	\$2.00000	\$1.329340	\$ 2.61

Other Comprehensive Income (Loss)

The following table summarizes the components of our other comprehensive income (loss) for fiscal years 2015 and 2014 (in millions):

	Fiscal Year	
	2015	2014
Unrealized gain (loss) on available-for-sale securities, net:		
Unrealized gain (loss), net	\$(620)	\$1,708
Reversal of prior period unrealized (gain) loss, net, upon realization	23	(51)
Unrealized gain (loss) on available-for-sale securities, net:	(597)	1,657
Unrealized gain on interest rate swaps designated as cash flow hedges:		
Reversal of prior period unrealized loss on interest rate swaps, net, upon reclassification to interest expense	101	156
Total other comprehensive income (loss)	\$(496)	\$1,813

For fiscal years 2015 and 2014, we had net unrealized gains on investment securities measured at fair value through net income of \$5 million and \$32 million, respectively.

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 also enter into TBA contracts as a means of acquiring or disposing of Agency securities and utilize TBA dollar roll transactions to finance Agency RMBS purchases. Because the level of our borrowings can be adjusted on a daily basis, 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 eleven times the amount of our tangible stockholders' equity. However, under certain market conditions, we may operate at leverage levels outside of this range for extended periods of time.

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

Debt Capital

As of December 31, 2016 and 2015, our mortgage borrowings and net TBA position consisted of the following (\$ in millions):

	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%
Mortgage Funding				
Repurchase agreements used to fund Agency RMBS ^{1,2}	\$37,686	71 %	\$41,729	78 %
FHLB advances	3,037	6 %	3,753	7 %
Debt of consolidated variable interest entities, at fair value	460	1 %	595	1 %
Total mortgage borrowings	41,183	78 %	46,077	86 %
Net TBA position, at cost	11,312	22 %	7,430	14 %
Total mortgage funding	\$52,495	100 %	\$53,507	100 %

1. Excludes repurchase agreements used to fund U.S. Treasury securities of \$172 million and \$25 million as of December 31, 2016 and 2015, respectively.

2. Excludes a net receivable of \$21 million and a net payable of \$182 million for unsettled purchases and sales of investment securities as of December 31, 2016 and 2015, respectively.

Our "at risk" leverage ratio was 7.1x as of December 31, 2016, compared to 6.8x as of December 31, 2015, measured as the sum of our total mortgage borrowings, net TBA position (at cost) and net payable for unsettled investment securities divided by the sum of our total stockholders' equity less our investments in REIT equity securities. Our tangible net book value "at risk" leverage was 7.7x our tangible stockholders' equity as of December 31, 2016.

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 such master repurchase agreements will have maturities ranging up to one year, but we may have longer-term borrowings ranging up to five years or longer. Borrowings under our master repurchase agreements with maturities greater than 90 days will typically have floating rates of interest based on LIBOR plus or minus a fixed spread.

As of December 31, 2016, we had \$37.7 billion of repurchase agreements outstanding used to fund acquisitions of investment securities with a weighted average cost of funds of 0.98% and a weighted average remaining days-to-maturity of 187 days, compared \$41.7 billion, 0.61% and 173 days, respectively, as of December 31, 2015. To limit our exposure to counterparty credit risk, we diversify our funding across multiple counterparties and by counterparty region. As of December 31, 2016, we had master repurchase agreements with 38 financial institutions located throughout North America, Europe and Asia, including counterparties accessed through our wholly-owned captive broker-dealer subsidiary, BES. As of December 31, 2016, less than 6% of our stockholders' equity was at risk

with any one repo counterparty, and our top five repo counterparties represented less than 14% of our stockholders' equity. The table below includes a summary of our repurchase agreement funding by number of repo counterparties and counterparty region as of December 31, 2016. For further details regarding our borrowings under repurchase agreements and concentration of credit risk as of December 31, 2016, please refer to Notes 4 and 6 to our Consolidated Financial Statements in this Form 10-K.

December 31, 2016

Counter-Party Region	Number of Counter-Parties	Percent of Repurchase Agreement Funding
North America	20	68%
Europe	13	20%
Asia	5	12%
	38	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 risk and limits the amount we can borrow against our investment securities. Our master repurchase agreements do not specify the haircut; rather haircuts are determined on an individual repurchase transaction basis. Throughout fiscal year 2016, haircuts on our pledged collateral remained stable and, as of December 31, 2016, our weighted average haircut was approximately 5% of the value of our collateral.

Under our repurchase agreements, we may be required to pledge additional assets to the repurchase agreement counterparties in the event the estimated fair value of the existing pledged collateral under such agreements declines and such 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 value of our securities securing our repurchase agreements and 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. However, in certain circumstances under certain of our repurchase agreements our lenders have the sole discretion to determine their value. In such instances, our lenders are required to act in good faith in making determinations of value. Our repurchase agreements generally provide that in the event of a margin call, we must provide additional securities or cash on the same business day that a margin call is made if the lender provides us notice prior to the margin notice deadline on such day.

As of December 31, 2016, we had met all of our margin requirements and we had unrestricted cash and cash equivalents of \$1.2 billion and unpledged securities of approximately \$1.8 billion, including securities pledged to us and unpledged interests in our consolidated VIEs, available to meet margin calls on our repurchase agreements and other funding liabilities, derivative instruments and for other corporate purposes.

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

During 2015, we formed a wholly-owned captive broker-dealer subsidiary, Bethesda Securities, LLC. BES became operational and received final membership approval to the FICC during the third quarter of 2016. BES has direct access to bilateral and triparty funding as a FINRA member broker-dealer. As an eligible institution, BES also raises funds through the General Collateral Finance Repo service offered by the FICC, with the FICC acting as the central counterparty, and thus provides us greater depth and diversity of repurchase agreement funding while also lowering our funding costs and limiting our counterparty exposure. As of December 31, 2016, we had entered into \$4.7 billion of repurchase agreement funding through BES and expect to continue to expand our financing activity through BES during 2017.

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 principal derivative instruments that we use are interest rate swaps, supplemented with the use of interest rate swaptions, U.S. Treasury securities, U.S. Treasury futures contracts, TBA securities and other instruments. Please refer to Notes 2 and 5 to our Consolidated Financial Statements in this Form 10-K for further details regarding our use of derivative instruments.

Our derivative agreements typically require that we pledge/receive collateral on such agreements to/from our counterparties in a similar manner as we are required to under our repurchase agreements. Our counterparties, or the central clearing agency, typically have the sole discretion to determine the value of the derivative instruments and the value of the collateral securing such instruments. In the event of a margin call, we must generally provide additional collateral on the same business day.

Similar to repurchase agreements, our use of derivatives exposes us to counterparty credit risk relating to potential losses that could be recognized in the event that our counterparties to these instruments fail to perform their obligations under the contracts. We minimize this risk by limiting our counterparties to major financial institutions with acceptable credit ratings and by monitoring positions with individual counterparties. Excluding centrally cleared interest rate swaps, as of December 31, 2016, 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 interest rate swap contracts, 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 exchange's initial and daily mark to market margin requirements and a clearinghouse guarantee fund and other resources that are available in the event of a clearing member default.

TBA Dollar Roll Transactions

TBA dollar roll transactions represent a form of off-balance sheet financing accounted for as derivative instruments and we may use them as a means of leveraging (or deleveraging) our investment portfolio through the use of long (or short) TBA contracts (see Notes 2 and 5 to our Consolidated Financial Statements in this Form 10-K).

Under certain market conditions, it may be uneconomical for us to roll our TBA contracts into future months and we may need to take or make physical delivery of the underlying securities. If we were required to take physical delivery to settle a long TBA contract, we would have to fund our total purchase commitment with cash or other financing sources and our liquidity position could be negatively impacted. As of December 31, 2016, we had a net long TBA position with a total market value and a total cost basis of \$11.2 billion and \$11.3 billion, respectively, and a net carrying value of \$(147) million recognized in derivative assets/(liabilities), at fair value, on our Consolidated Balance Sheets in this Form 10-K.

Our TBA dollar roll contracts are also subject to margin requirements governed by the 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.

Federal Home Loan Bank Membership

In April 2015, our wholly-owned captive insurance subsidiary, Old Georgetown Insurance Co., LLC ("OGI"), was approved as a member of the FHLB of Des Moines. The FHLBs provide a variety of products and services to their members, including short and long-term secured loans, called "advances." In January 2016, the FHFA released its final rule on changes to regulations concerning FHLB membership criteria. The final rule terminated OGI's FHLB membership and required repayment of all advances at the earlier of their contractual maturity dates or a one year period after the effective date of the final rule that concluded in February 2017. As of December 31, 2016, we had \$3.0 billion of FHLB advances outstanding with a weighted average interest rate of 0.73% and a weighted average remaining days to maturity of 28 days up to February 2017. We do not expect the termination of our FHLB membership to negatively impact our liquidity position, since FHLB advances do not represent our primary source of

funding.

Asset Sales and TBA Eligible Securities

We maintain a portfolio of highly liquid mortgage-backed securities. We may sell our Agency securities through the TBA market by delivering them into TBA contracts, subject to "good delivery" provisions promulgated by SIFMA. We may alternatively sell Agency securities that have more unique attributes on a specified basis when such securities trade at a premium over generic TBA securities or if the securities are not otherwise eligible for TBA delivery. Since the TBA market is the second most liquid market (second to the U.S. Treasury market), maintaining a significant level of Agency securities eligible for TBA delivery enhances our liquidity profile and provides price support for our TBA eligible securities at or above generic TBA prices. As of December 31, 2016, approximately 86% of our fixed rate Agency RMBS portfolio was eligible for TBA delivery.

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Equity Capital

To the extent we raise additional equity capital through follow-on equity offerings or under our dividend reinvestment and direct stock purchase plan, 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 for other general corporate purposes. There can be no assurance, however, that we will be able to raise additional equity capital at any particular time or on any particular terms. Furthermore, when the trading price of our common stock is significantly less than our estimate of our current tangible net asset value per common share, among other conditions, we may repurchase shares of our common stock, subject to the provisions of our stock repurchase program (see Note 9 to our Consolidated Financial Statements in this Form 10-K).

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2016, we did not maintain any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance, or special purpose or variable interest entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Furthermore, as of December 31, 2016, we had not guaranteed any obligations of unconsolidated entities or entered into any commitment or intent to provide funding to any such entities.

AGGREGATE CONTRACTUAL OBLIGATIONS

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

	Fiscal Year					Total
	2017	2018	2019	2020	2021	
Repurchase agreements and FHLB advances	\$35,567	\$1,203	\$1,300	\$2,200	\$625	\$40,895
Interest expense ¹	121	63	44	14	1	243
Total	\$35,688	\$1,266	\$1,344	\$2,214	\$626	\$41,138

¹ Interest expense is calculated based on the weighted average interest rates on our repurchase agreements and FHLB advances as of December 31, 2016.

FORWARD-LOOKING STATEMENTS

All statements contained herein that are not historical facts including, but not limited to, statements regarding anticipated activity are forward looking in nature and involve a number of risks and uncertainties. Actual results may differ materially. Among the factors that could cause actual results to differ materially are the following: (i) changes in the market value of our assets; (ii) changes in net interest rate spreads; (iii) changes in prepayment rates of the mortgage loans underlying our Agency securities; (iv) risks associated with our hedging activities; (v) availability and terms of financing arrangements; (vi) further actions by the U.S. government to stabilize the economy; (vii) changes in our business or investment strategy; (viii) legislative and regulatory changes (including changes to laws governing the taxation of REITs); (ix) our ability to meet the requirements of a REIT (including income and asset requirements); and (x) our ability to remain exempt from registration under the Investment Company Act of 1940. For a discussion of the risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, please see the information under the caption "Risk Factors" described in this Annual Report on Form 10-K. We caution readers not to place undue reliance on any such forward-looking statements, which statements are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, speak only as of the date made.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

Interest Rate Risk

Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control.

Changes in the general level of interest rates can affect our net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with our interest-bearing liabilities, by affecting the spread between our interest-earning assets and interest-bearing liabilities.

Changes in the level of interest rates can also affect the rate of prepayments of our securities and the value of the mortgage securities that constitute our investment portfolio, which affects our net income and ability to realize gains from the sale of these assets and impacts our ability and the amount that we can borrow against these securities.

We utilize a variety of strategies to limit the effects of changes in interest rates on our operations. The principal instruments that we use are interest rate swaps and swaptions. We also utilize U.S. Treasury securities and U.S. Treasury futures contracts, primarily through short sales, as well as TBA contracts. We may also purchase or write put or call options on TBA securities and utilize other types of derivative instruments. Derivative instruments may expose us to certain risks, including the risk that losses on a hedge position will reduce the funds available for payments to holders of our common stock and that the losses may exceed the amount we invested in the instruments.

Our profitability and the value of our investment portfolio (including derivatives used for hedging purposes) may be adversely affected during any period as a result of changing interest rates including changes in the forward yield curve.

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 mortgage assets or our hedge portfolio that would be caused by a parallel change in short and long-term interest rates. The duration of our investment portfolio 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 portfolio 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. These adjustments are intended to better reflect the unique characteristics and market trading conventions associated with certain types of securities.

The table below quantifies the estimated changes in (i) net interest income (including periodic interest costs on our interest rate swaps); (ii) the fair value of our investment portfolio (including derivatives and other securities used for hedging purposes); and (iii) our net asset value as of December 31, 2016 and 2015 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 December 31, 2016 and 2015. We apply a floor of 0% for the down rate scenarios on our interest bearing liabilities and the variable leg of our interest rate swaps, such that any hypothetical interest rate decrease would have a limited positive impact on our funding costs beyond a certain level.

Actual results could differ materially from estimates, especially in the current market environment. To the extent that these estimates or other assumptions do not hold true, which is likely in a period of high price volatility, actual results will likely differ materially from 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 make adjustments to the size and composition of our asset and hedge portfolio.

Interest Rate Sensitivity ¹

Change in Interest Rate	Percentage Change in Projected		
	Net Interest Income ²	Portfolio Market Value ^{3,4}	Net Asset Value ^{3,5}
As of December 31, 2016			
-100 Basis Points	-9.7%	+0.6%	+4.6%
-50 Basis Points	-1.8%	+0.5%	+4.1%
+50 Basis Points	+4.1%	-0.8%	-6.4%
+100 Basis Points	+6.2%	-1.7%	-14.1%
As of December 31, 2015			
-100 Basis Points	-17.3%	-0.4%	-2.8%
-50 Basis Points	-4.2%	+0.1%	+0.6%
+50 Basis Points	+2.0%	-0.5%	-3.7%
+100 Basis Points	+2.5%	-1.2%	-9.4%

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.

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 costs 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 costs associated with our TBA position and 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 8% as of December 31, 2016 and 2015. As of December 31, 2016, rate shock scenarios assume a forecasted CPR of 10%, 9%, 7% and 7% for the -100, -50, +50 and +100 basis points scenarios, respectively. As of December 31, 2015, rate shock scenarios assume a forecasted CPR of 12%, 10%, 8% 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.

Down rate scenarios assume a floor of 0% for anticipated interest rates.

Includes the effect of derivatives and other securities used for hedging purposes.

Estimated dollar change in investment portfolio value expressed as a percent of the total fair value of our investment portfolio as of such date.

Estimated dollar change in portfolio value expressed as a percent of stockholders' equity, net of the Series A and Series B Preferred Stock liquidation preference, as of such date.

Prepayment Risk

Because residential borrowers have the option to prepay their mortgage loans at par at any time, we face the risk that we will experience a return of principal on our investments faster than anticipated. Various factors affect the rate at which mortgage prepayments occur, including changes in the level of and directional trends in housing prices, interest rates, general economic conditions, loan age and size, loan-to-value ratio, the location of the property and social and demographic conditions. Additionally, changes to GSE underwriting practices or other governmental programs could also significantly impact prepayment rates or expectations. Also, the pace at which the loans underlying our securities become seriously delinquent or are modified and the timing of GSE repurchases of such loans from our securities can materially impact the rate of prepayments. Generally, prepayments on residential mortgage-backed securities 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.

We may reinvest principal repayments at a yield that is lower or higher than the yield on the repaid investment, thus affecting our net interest income by altering the average yield on our assets. We also amortize or accrete premiums and discounts associated with the purchase of mortgage securities into interest income over the projected lives of the

securities, including contractual payments and estimated prepayments using the effective interest method. Our policy for estimating prepayment speeds for calculating the effective yield is to evaluate published prepayment data for similar securities, market consensus and current market conditions. If the actual prepayment experienced differs from our estimate of prepayments, we will be required to make an adjustment to the amortization or accretion of premiums and discounts that would have an impact on future income.

Spread Risk

When the market spread between the yield on our investment securities and benchmark interest rates widens, our net book value could decline if the value of our investment securities fall by more than the offsetting fair value increases on our hedging instruments tied to the underlying benchmark interest rates. We refer to this as "spread risk" or "basis risk." The spread risk associated with our mortgage assets and the resulting fluctuations in fair value of these securities can occur independent of changes in benchmark interest rates and may relate to other factors impacting the mortgage and fixed income markets, such as actual or

anticipated monetary policy actions by the Federal Reserve, market liquidity, or changes in required rates of return on different assets. Consequently, while we use interest rate swaps and other supplemental hedges to attempt to protect against moves in interest rates, such instruments typically will not protect our net book value against spread risk. The table below quantifies the estimated changes in the fair value of our investment portfolio (including derivatives and other securities used for hedging purposes) and in our net asset value as of December 31, 2016 and 2015 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 5.4 years and 5.2 years as of December 31, 2016 and 2015, respectively, based on interest rates and RMBS 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 investment portfolio. Therefore, actual results could differ materially from our estimates.

Spread Sensitivity of Agency RMBS Portfolio 1

Change in MBS Spread	Percentage Change in Projected Portfolio	
	Market Value ^{2,3}	Net Asset Value ^{2,4}
As of December 31, 2016		
-25 Basis Points	+1.3%	+11.0%
-10 Basis Points	+0.5%	+4.4%
+10 Basis Points	-0.5%	-4.4%
+25 Basis Points	-1.3%	-11.0%
As of December 31, 2015		
-25 Basis Points	+1.3%	+10.2%
-10 Basis Points	+0.5%	+4.1%
+10 Basis Points	-0.5%	-4.1%
+25 Basis Points	-1.3%	-10.2%

Spread sensitivity is derived from models that are dependent on inputs and assumptions provided by third parties, 1. 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 stockholders' equity, net of the Series A and Series B Preferred Stock liquidation preference, as of such date.

Liquidity Risk

The primary liquidity risk for us arises from financing long-term assets with shorter-term borrowings through repurchase agreements and other short-term funding agreements. As of December 31, 2016, we had unrestricted cash and cash equivalents of \$1.2 billion and unpledged securities of approximately \$1.8 billion, including securities pledged to us and unpledged interests in our consolidated VIEs, 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 such funding liabilities. Significantly higher haircuts can reduce our ability to leverage our portfolio or even force us to sell assets,

especially if correlated with asset price declines or faster prepayment rates on our assets.

In addition, we often utilize TBA dollar roll transactions as a means of investing in and financing Agency RMBS. Under certain economic conditions it may be uneconomical to roll our TBA dollar roll transactions prior to the 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.

Extension Risk

The projected weighted-average life and estimated duration, or interest rate sensitivity, of our investments is based on our assumptions regarding the rate at which the borrowers will prepay the underlying mortgage loans. In general, we use interest rate

swaps and swaptions to help manage our funding cost on our investments in the event that interest rates rise. These swaps (or swaptions) allow us to reduce our funding exposure on the notional amount of the swap for a specified period of time by establishing a fixed rate to pay in exchange for receiving a floating rate that generally tracks our financing costs under our funding liabilities.

However, if prepayment rates decrease in a rising interest rate environment, the average life or duration of our fixed rate assets generally extends. This could have a negative impact on our results from operations, as our interest rate swap maturities are fixed and will, therefore, cover a smaller percentage of our funding exposure on our mortgage assets to the extent that their average lives increase due to slower prepayments. This situation may also cause the market value of our fixed rate securities to decline by more than otherwise would be the case while most of our hedging instruments would not receive any incremental offsetting gains. In extreme situations, we may be forced to sell assets to maintain adequate liquidity, which could cause us to incur realized losses.

Credit Risk

We are exposed to credit risk related to our CRT and non-Agency investments, certain derivative transactions, and our collateral held by funding and derivative counterparties. We accept credit exposure at levels we deem prudent as an integral part of our investment and hedging strategy. We seek to manage this risk through prudent asset selection, pre-acquisition due diligence, post-acquisition performance monitoring, sale of assets where we have identified negative credit trends and the use of various types of credit enhancements. We may also use non-recourse financing, which limits our exposure to credit losses to the specific pool of mortgages subject to the non-recourse financing. Our overall management of credit exposure may also include the use of credit default swaps or other financial derivatives that we believe are appropriate. Additionally, we may vary the percentage mix of our investments or our duration gap, when we believe credit performance is inversely correlated with changes in interest rates, in an effort to actively adjust our credit exposure and to improve the risk/return profile of our investment portfolio.

Our credit risk related to certain derivative transactions is largely mitigated through daily adjustments to collateral pledged based on changes in market value and we limit our counterparties to major financial institutions with acceptable credit ratings. 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 if economic conditions worsen.

Item 8. Financial Statements

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

The consolidated financial statements as of December 31, 2016 and 2015 and fiscal years 2016, 2015 and 2014 have been audited by Ernst & Young LLP, an independent registered public accounting firm, who conducted their audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). The independent registered public accounting firm's responsibility is to express an opinion on these consolidated financial statements.

Management's Report on Internal Control over Financial Reporting

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

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

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2016, utilizing the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its Internal Control-Integrated Framework (2013 framework). Based on this assessment and those criteria, management determined that our internal control over financial reporting was effective as of December 31, 2016. The effectiveness of our internal control over financial reporting as of December 31, 2016 has been audited by Ernst & Young LLP, our independent registered public accounting firm, as stated in their attestation report included in this Form 10-K.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of AGNC Investment Corp.

We have audited AGNC Investment Corp.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). AGNC Investment Corp.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, AGNC Investment Corp. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of AGNC Investment Corp. as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016 of AGNC Investment Corp., and our report dated February 27, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
February 27, 2017

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of AGNC Investment Corp.

We have audited the accompanying consolidated balance sheets of AGNC Investment Corp. as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AGNC Investment Corp. at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AGNC Investment Corp.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 27, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
February 27, 2017

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

	December 31,	
	2016	2015
Assets:		
Agency securities, at fair value (including pledged securities of \$43,943 and \$48,380, respectively)	\$45,393	\$51,331
Agency securities transferred to consolidated variable interest entities, at fair value (pledged securities)	818	1,029
Non-Agency securities, at fair value (including pledged securities of \$90 and \$113, respectively)	124	113
Credit risk transfer securities, at fair value	164	—
U.S. Treasury securities, at fair value (including pledged securities of \$173 and \$25, respectively)	182	25
REIT equity securities, at fair value	—	33
Cash and cash equivalents	1,208	1,110
Restricted cash and cash equivalents	74	1,281
Derivative assets, at fair value	355	81
Receivable for securities sold (pledged securities)	21	—
Receivable under reverse repurchase agreements	7,716	1,713
Goodwill and other intangible assets, net	554	—
Other assets	271	305
Total assets	\$56,880	\$57,021
Liabilities:		
Repurchase agreements	\$37,858	\$41,754
Federal Home Loan Bank advances	3,037	3,753
Debt of consolidated variable interest entities, at fair value	460	595
Payable for securities purchased	—	182
Derivative liabilities, at fair value	256	935
Dividends payable	66	74
Obligation to return securities borrowed under reverse repurchase agreements, at fair value	7,636	1,696
Accounts payable and other liabilities	211	61
Total liabilities	49,524	49,050
Stockholders' equity:		
Preferred stock - \$0.01 par value; 10.0 shares authorized:		
Redeemable Preferred Stock; \$0.01 par value; 6.9 shares issued and outstanding (aggregate liquidation preference of \$348)	336	336
Common stock - \$0.01 par value; 600 shares authorized;		
331.0 and 337.5 shares issued and outstanding, respectively	3	3
Additional paid-in capital	9,932	10,048
Retained deficit	(2,518)	(2,350)
Accumulated other comprehensive loss	(397)	(66)
Total stockholders' equity	7,356	7,971
Total liabilities and stockholders' equity	\$56,880	\$57,021
See accompanying notes to consolidated financial statements.		

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

	For the year ended December 31,		
	2016	2015	2014
Interest income:			
Interest income	\$1,321	\$1,466	\$1,472
Interest expense	394	330	372
Net interest income	927	1,136	1,100
Other gain (loss), net:			
Gain (loss) on sale of investment securities, net	109	(23)	51
Unrealized gain (loss) on investment securities measured at fair value through net income, net	(6)	5	32
Loss on derivative instruments and other securities, net	(310)	(764)	(1,275)
Management fee income	8	—	—
Total other loss, net:	(199)	(782)	(1,192)
Expenses:			
Management fee expense	52	116	119
Compensation and benefits	19	—	—
Other operating expenses	34	23	22
Total operating expenses	105	139	141
Net income (loss)	623	215	(233)
Dividend on preferred stock	28	28	23
Net income (loss) available (attributable) to common stockholders	\$595	\$187	\$(256)
Net income (loss)	\$623	\$215	\$(233)
Other comprehensive income (loss):			
Unrealized gain (loss) on available-for-sale securities, net	(370)	(597)	1,657
Unrealized gain on derivative instruments, net	39	101	156
Other comprehensive income (loss)	(331)	(496)	1,813
Comprehensive income (loss)	292	(281)	1,580
Dividend on preferred stock	28	28	23
Comprehensive income (loss) available (attributable) to common stockholders	\$264	\$(309)	\$1,557
Weighted average number of common shares outstanding - basic and diluted	331.9	348.6	353.3
Net income (loss) per common share - basic and diluted	\$1.79	\$0.54	\$(0.72)
See accompanying notes to consolidated financial statements.			

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

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31 2013	6.9	\$ 167	356.2	\$ 4	\$ 10,406	\$(497)	\$(1,383)	\$8,697
Net loss	—	—	—	—	—	(233)	—	(233)
Other comprehensive income:								
Unrealized gain on available-for-sale securities, net	—	—	—	—	—	—	1,657	1,657
Unrealized gain on derivative instruments, net	—	—	—	—	—	—	156	156
Issuance of preferred stock	—	169	—	—	—	—	—	169
Repurchase of common stock	—	—	(3.4)	—	(74)	—	—	(74)
Preferred dividends declared	—	—	—	—	—	(23)	—	(23)
Common dividends declared	—	—	—	—	—	(921)	—	(921)
Balance, December 31, 2014	6.9	336	352.8	4	10,332	(1,674)	430	9,428
Net income	—	—	—	—	—	215	—	215
Other comprehensive income (loss):								
Unrealized loss on available-for-sale securities, net	—	—	—	—	—	—	(597)	(597)
Unrealized gain on derivative instruments, net	—	—	—	—	—	—	101	101
Repurchase of common stock	—	—	(15.3)	(1)	(284)	—	—	(285)
Preferred dividends declared	—	—	—	—	—	(28)	—	(28)
Common dividends declared	—	—	—	—	—	(863)	—	(863)
Balance, December 31, 2015	6.9	336	337.5	3	10,048	(2,350)	(66)	7,971
Net income	—	—	—	—	—	623	—	623
Other comprehensive income (loss):								
Unrealized loss on available-for-sale securities, net	—	—	—	—	—	—	(370)	(370)
Unrealized gain on derivative instruments, net	—	—	—	—	—	—	39	39
Repurchase of common stock	—	—	(6.5)	—	(116)	—	—	(116)
Preferred dividends declared	—	—	—	—	—	(28)	—	(28)
Common dividends declared	—	—	—	—	—	(763)	—	(763)
Balance, December 31, 2016	6.9	\$ 336	331.0	\$ 3	\$ 9,932	\$(2,518)	\$(397)	\$7,356

See accompanying notes to consolidated financial statements.

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

	For the year ended December 31,		
	2016	2015	2014
Operating activities:			
Net income (loss)	\$623	\$215	\$(233)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Amortization of premiums and discounts on mortgage-backed securities, net	400	408	472
Amortization of accumulated other comprehensive loss on interest rate swaps de-designated as qualifying hedges	39	101	156
Amortization of intangible assets	2	—	—
Stock based compensation	1	—	—
(Gain) loss on sale of mortgage-backed securities, net	(109)	23	(51)
Unrealized loss on investment securities measured at fair value through net income, net	6	5	32
Loss on derivative instruments and other securities, net	310	754	1,211
(Increase) decrease in other assets	34	(83)	55
Increase (decrease) in accounts payable and other accrued liabilities	46	5	(20)
Net cash provided by operating activities	1,352	1,428	1,622
Investing activities:			
Purchases of mortgage-backed securities	(20,836)	(32,770)	(26,349)
Purchases of non-Agency securities	(34)	(116)	—
Proceeds from sale of mortgage-backed securities	18,030	27,794	30,587
Principal collections on mortgage-backed securities	8,137	7,922	7,358
Purchases of credit risk transfer securities	(195)	—	—
Purchases of U.S. Treasury securities	(4,483)	(49,724)	(51,511)
Proceeds from sale of U.S. Treasury securities	10,393	48,354	56,068
Net proceeds from (payments on) reverse repurchase agreements	(6,003)	3,505	(3,337)
Net proceeds from (payments on) other derivative instruments	(1,399)	(300)	313
Purchases of REIT equity securities	—	(11)	(234)
Proceeds from sale of REIT equity securities	39	35	416
Purchase of AGNC Mortgage Management, LLC, net of cash acquired	(555)	—	—
(Increase) decrease in restricted cash and cash equivalents	1,244	(568)	(612)
Other investing cash flows, net	107	(28)	(350)
Net cash provided by investing activities	4,445	4,093	12,349
Financing activities:			
Proceeds from repurchase arrangements	217,501	380,580	291,736
Payments on repurchase agreements	(221,434)	(389,122)	(304,973)
Proceeds from Federal Home Loan Bank advances	2,098	12,957	—
Payments on Federal Home Loan Bank advances	(2,814)	(9,204)	—
Payments on debt of consolidated variable interest entities	(135)	(155)	(158)
Net proceeds from preferred stock issuance	—	—	169
Payments for common stock repurchases	(116)	(285)	(74)
Cash dividends paid	(799)	(902)	(1,094)
Net cash used in financing activities	(5,699)	(6,131)	(14,394)
Net change in cash and cash equivalents	98	(610)	(423)
Cash and cash equivalents at beginning of period	1,110	1,720	2,143

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Cash and cash equivalents at end of period	\$1,208	\$1,110	\$1,720
Supplemental disclosure to cash flow information:			
Interest paid	\$332	\$215	\$217
Taxes paid	\$—	\$1	\$3
See accompanying notes to consolidated financial statements.			

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AGNC INVESTMENT CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Organization

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

We operate so as 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 net income. As 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 net income to the extent that we distribute our annual taxable net income to our stockholders on a timely basis. It is our intention to distribute 100% of our taxable net income, after application of available tax attributes, within the 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 pass-through mortgage securities for which the principal and interest payments are guaranteed by a U.S. Government-sponsored enterprise 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 mortgage-backed securities ("non-Agency RMBS") and commercial mortgage-backed securities ("CMBS"), where repayment of principal and interest is not guaranteed by a U.S. Government-sponsored enterprise or U.S. Government agency (see Note 2 for further details).

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

Prior to July 1, 2016, we were externally managed by AGNC Management, LLC, (formerly known as American Capital AGNC Management, LLC) (our "Manager"). On July 1, 2016, we completed the acquisition of all of the outstanding membership interests of AGNC Mortgage Management, LLC ("AMM," formerly known as American Capital Mortgage Management, LLC), the parent company of our Manager, from American Capital Asset Management, LLC ("ACAM"), a wholly owned portfolio company of American Capital, Ltd. ("ACAS"). AMM is also the parent company of MTGE Management, LLC ("MTGE Manager," formerly known as American Capital MTGE Management, LLC), the external manager of MTGE Investment Corp. ("MTGE," formerly known as American Capital Mortgage Investment Corp.). Following the closing of the acquisition of AMM, we became internally managed and are no longer affiliated with ACAS (see Notes 11 and 12 for further details).

Note 2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the period reported. Actual results could differ from those estimates.

Earnings per Share

Basic earnings per share ("EPS") is computed by dividing net income (loss) available (attributable) to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS assumes the conversion, exercise or issuance of all potential common stock equivalents unless the effect is to reduce a loss or increase the income per share.

Accumulated Other Comprehensive Income (Loss)

Accounting Standards Codification ("ASC") Topic 220, Comprehensive Income, divides comprehensive income into net income and other comprehensive income (loss) ("OCI"), which includes unrealized gains and losses on securities classified as available-for-sale and unrealized gains and losses on derivative financial instruments that are designated and qualify for cash flow hedge accounting under ASC Topic 815, Derivatives and Hedging ("ASC 815"). During fiscal year 2011, we discontinued designating our derivative financial instruments, principally interest rate swaps, as cash flow hedges. For further information regarding our discontinuation of cash flow hedge accounting, see Derivatives Instruments below and Note 5.

Cash and Cash Equivalents

Cash and cash equivalents consist of unrestricted demand deposits and highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at cost, which approximates fair value.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents includes cash and cash equivalents pledged as collateral for clearing and executing trades, repurchase agreements and other borrowings, and interest rate swaps and other derivative instruments. Restricted cash and cash equivalents are carried at cost, which approximates fair value.

Investment Securities

We primarily invest in Agency RMBS. Agency RMBS consist of residential mortgage pass-through securities and collateralized mortgage obligations ("CMOs") 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"), or by a U.S. Government agency, such as the Government National Mortgage Association ("Ginnie Mae") (collectively referred to as "GSEs"). Interest-only and inverse interest-only securities (together referred to as "interest-only securities") represent the right to receive a specified proportion of the contractual interest flows of specific Agency CMO securities. Principal-only securities represent the right to receive the contractual principal flows of specific Agency CMO securities.

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 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 are able to 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.

REIT equity securities represent investments in the common stock of other publicly traded mortgage REITs that invest primarily in 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 for such securities pursuant to ASC Topic 825, Financial Instruments. We report securities classified as trading or available-for-sale or for which if we elected the fair value option at fair value, while securities classified as held-to-maturity are reported at amortized cost. Unrealized gains and losses on securities classified as available-for-sale are reported in accumulated other comprehensive income (loss) ("OCI"). Unrealized gains and losses on securities classified as trading or for which we elected the fair value option are reflected in net income through other gain (loss) during the period in which they occur. We may sell any of our securities as part of our overall management of our investment portfolio.

Accordingly, unless we elect the fair value option, we typically designate our investment securities as available-for-sale. Investments in REIT equity securities are designated as trading securities. 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.

We have elected the fair value option to account for CRT securities, interest and principal-only securities and CMBS as this election simplifies the accounting for such securities. Effective January 1, 2017, we elected the fair value option for future purchases of all investment securities, including Agency RMBS and non-Agency MBS. In our view, this election will more appropriately

reflect the result of our operations for a particular reporting period, as the fair value changes for these financial assets will be presented in a manner consistent with the presentation and timing of the fair value changes of our hedging instruments. We are not permitted to change the designation of available-for-sale securities acquired prior to January 1, 2017, accordingly, such securities will continue to be classified as available-for-sale securities until such time as we receive full repayment or we dispose of the security.

We estimate the fair value of Agency RMBS, non-Agency MBS and CRT securities based on a market approach using "Level 2" inputs from third-party pricing services and non-binding dealer quotes derived from common market pricing methods. Such methods incorporate, but are not limited to, reported trades and executable bid and asked prices for similar securities, benchmark interest rate curves, such as the spread to the U.S. Treasury rate and interest rate swap curves, convexity, duration and the underlying characteristics of the particular security, including coupon, periodic and life caps, rate reset period, issuer, additional credit support and expected life of the security. We estimate the fair value of REIT equity securities based on a market approach using "Level 1" inputs based on quoted market prices. Refer to Note 7 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: (i) we intend to sell the security (that is, a decision has been made to sell the security), (ii) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis or (iii) we do not expect to recover the security's amortized cost basis, even if we do not intend to sell the security and it is not more likely than not that we will be required to sell the security. A general allowance for unidentified impairments in a portfolio of securities is not permitted.

If either of the first two conditions exists as of the financial reporting date, the entire amount of the impairment loss, if any, is recognized in earnings as a realized loss and the cost basis of the security is adjusted to its fair value. However, with respect to the first condition, since the liquidity of the Agency securities market allows us to obtain competitive bids and execute on a sale transaction typically within a day of making the decision to sell a security, we generally do not make decisions to sell specific mortgage securities until shortly prior to initiating a sell order. In some instances, we may sell specific Agency securities by delivering the securities into existing short "to-be-announced" ("TBA") contracts. TBA market conventions require the identification of the specific securities to be delivered no later than 48 hours prior to settlement. If we settle a short TBA contract through the delivery of securities, we will generally identify the specific securities to be delivered within one to two days before the 48-hour deadline.

If the third condition exists, the OTTI is separated into (i) the amount relating to credit loss (the "credit component") and (ii) the amount relating to all other factors (the "non-credit components"). Only the credit component is recognized in earnings, with the non-credit components recognized in OCI. However, in evaluating if the third condition exists, our investments in Agency securities typically would not have a credit component since the principal and interest are guaranteed by a GSE and, therefore, any unrealized loss is not the result of a credit loss. In addition, since unrealized gains and losses for securities designated as available-for-sale are recognized in OCI, any impairment loss for non-credit components is already recognized in OCI.

We did not recognize any OTTI charges on our investment securities for fiscal years 2016, 2015 or 2014.

Interest Income

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

We estimate long-term prepayment speeds of our mortgage securities using a third-party service and market data. The third-party service estimates prepayment speeds using models that incorporate the forward yield curve, current mortgage rates and 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 prepayment speeds estimated by the third-party service and, based on our judgment, we may make adjustments to its estimates. Actual and anticipated prepayment experience is reviewed quarterly and effective yields are recalculated when differences arise between (i) our previously estimated future prepayments and (ii) the actual prepayments to date plus our currently 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 about interest rates, prepayment rates, the timing and amount of credit losses, and other factors. Any resulting changes in effective yield are recognized prospectively based on the current amortized cost of the investment as adjusted for credit impairment, if any.

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 ("ASC 860"), we account for repurchase transactions as collateralized financing transactions, which are carried at their contractual amounts (cost), plus accrued interest, as specified in the respective transactions. Our repurchase agreements typically have maturities of less than one year, but may extend up to five years or more. Interest rates under our repurchase agreements generally correspond to one, three or six 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.

Federal Home Loan Bank Advances

Federal Home Loan Bank ("FHLB") advances are secured loans from the FHLB of Des Moines used to finance the acquisitions of investment securities. We account for FHLB advances as collateralized financing transactions, which are carried at their contractual amounts (cost), plus accrued interest, as specified in the respective transactions. In April 2015, our wholly-owned captive insurance subsidiary, Old Georgetown Insurance Co., LLC ("OGI"), was approved as a member of the FHLB of Des Moines. The FHLBs provide a variety of products and services to their members, including short and long-term secured loans. In January 2016, the Federal Housing Finance Agency released its final rule on changes to regulations concerning FHLB membership criteria. The final rule terminated OGI's FHLB membership and required repayment of all advances at the earlier of their contractual maturity dates or a one year period after the effective date of the final rule that concluded in February 2017. Interest rates under our FHLB advances generally correspond to the FHLB's Member Option Variable Rate or to one or three month LIBOR plus or minus a fixed spread. The fair value of our FHLB advances 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 from time to time borrow securities to cover short sales of U.S. Treasury securities through reverse repurchase transactions under our master repurchase agreements (see Derivatives 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 generally mature daily. The fair value of our reverse repurchase agreements is assumed to equal cost as the interest rates are generally reset daily.

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 risk. 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 principal instruments that we use are interest rate swaps and options to enter into interest rate swaps ("swaptions"). We also utilize U.S. Treasury securities and U.S. Treasury futures contracts, primarily through short sales, and forward contracts for the purchase or sale of Agency RMBS securities on a generic pool basis in the "to-be-announced" market ("TBA securities") and on a specified pool basis. We may also purchase or write put or call options on TBA securities and utilize other types of derivative instruments to hedge a portion of our risk.

We also enter into TBA contracts as a means of investing in and financing Agency securities (thereby increasing our "at risk" leverage) or as a means of disposing of or reducing our exposure to Agency securities (thereby reducing our "at risk" leverage). Under TBA contracts, we agree to purchase or sell, for future delivery, Agency securities with certain principal and interest terms and certain types of collateral, but the particular Agency securities to be delivered are not identified until shortly before the TBA settlement date. We may also choose, prior to settlement, to move the settlement of these securities out to a later date by entering into an offsetting short or long position (referred to as a "pair off"), net settling the paired off positions for cash, and simultaneously purchasing or selling a similar TBA contract for a later settlement date. This transaction is commonly referred to as a "dollar roll." The Agency securities purchased or sold for a forward settlement date are typically priced at a discount to Agency securities for

settlement in the current month. This difference (or discount) is referred to as the "price drop." The price drop is the economic equivalent of net interest carry income on the underlying Agency securities over the roll period (interest income less implied financing cost) and is commonly referred to as "dollar roll income/loss." Consequently, forward purchases of Agency securities and dollar roll transactions represent a form of off-balance sheet financing. 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.

The use of derivative instruments creates exposure to credit risk relating to potential losses that could be recognized in the event that the counterparties to these instruments fail to perform their obligations under the contracts. We attempt to minimize this risk by limiting our counterparties to major financial institutions with acceptable credit ratings, monitoring positions with individual counterparties and adjusting posted collateral as required.

Discontinuation of hedge accounting for interest rate swap agreements

Prior to fiscal year 2011, we entered into interest rate swap agreements typically with the intention of qualifying for hedge accounting under ASC 815. However, during fiscal year 2011, we elected to discontinue hedge accounting for our interest rate swaps. Upon discontinuation of hedge accounting, the net deferred loss related to our de-designated interest rate swaps remained in accumulated OCI and has been reclassified from accumulated OCI into interest expense on a straight-line basis over the remaining term of each interest rate swap through December 2016.

Interest rate swap agreements

We use interest rate swaps to hedge the variable cash flows associated with borrowings made under our repurchase agreement facilities. Under our interest rate swap agreements, we typically pay a fixed rate and receive a floating rate based on one, three or six-month LIBOR ("payer swaps") with terms up to 20 years. The floating rate we receive under our swap agreements has the effect of offsetting the repricing characteristics of our repurchase agreements and cash flows on such liabilities. Our swap agreements are privately negotiated in the over-the-counter ("OTC") market. Swap agreements entered into subsequent to May 2013 are centrally cleared through a registered commodities exchange ("centrally cleared swaps").

We estimate the fair value of our centrally cleared interest rate swaps using the daily settlement price determined by the respective exchange. Centrally cleared swaps are valued by the exchange using a pricing model that references the underlying rates including the overnight index swap rate and LIBOR forward rate to produce the daily settlement price.

We estimate the fair value of our "non-centrally cleared" swaps using a combination of inputs from counterparty and third-party pricing models to estimate the net present value of the future cash flows using the forward interest rate yield curve in effect as of the end of the measurement period. We also incorporate 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 consider 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 generally 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 swaption agreements typically provide us the option to enter into a pay-fixed rate interest rate swap, which we refer as "payer swaptions." We may also enter into swaption agreements that provide us the option to enter into a receive-fixed interest rate swap, which we refer to as "receiver swaptions." The premium paid for interest rate swaptions is reported as an asset in our consolidated balance sheets. The premium is valued at an amount equal to the fair value of the swaption that would have the effect of closing the position adjusted for nonperformance risk, if any. The difference between the premium 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 received and the premium paid.

Our interest rate swaption agreements are privately negotiated in the OTC market and are not subject to central clearing. 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.

TBA securities

A TBA security is a forward contract for the purchase ("long position") or sale ("short position") of Agency RMBS at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date. The specific Agency RMBS delivered into the contract upon the settlement date, published each month by the Securities Industry and Financial Markets Association, are not known at the time of the transaction. We may enter into TBA contracts as a means of hedging against short-term changes in interest rates. We may also enter into TBA contracts as a means of acquiring or disposing of Agency securities and utilize TBA dollar roll transactions to finance Agency RMBS purchases.

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 take physical delivery of the Agency security upon settlement of the contract. We account for TBA dollar roll transactions as a series of derivative transactions. Gains, losses and dollar roll income associated with our TBA contracts and dollar roll transactions are recognized in our consolidated statements of comprehensive income in gain (loss) on derivative instruments and other securities, net.

We estimate the fair value of TBA securities based on similar methods used to value our Agency RMBS securities.

U.S. Treasury securities

We purchase and sell short U.S. Treasury securities and U.S. Treasury futures contracts to help mitigate the potential impact of changes in interest rates on the performance of our portfolio. We borrow securities to cover short sales of U.S. Treasury securities under reverse repurchase agreements. 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 borrowed securities as of the reporting date. Gains and losses associated with purchases and short sales of 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.

Variable Interest Entities

ASC Topic 810, Consolidation ("ASC 810"), requires an enterprise to consolidate a variable interest entity ("VIE") if it is deemed the primary beneficiary of the VIE. Further, ASC 810 requires a qualitative assessment to determine the primary beneficiary of a VIE and ongoing assessments of whether an enterprise is the primary beneficiary of a VIE as well as additional disclosures for entities that have variable interests in VIEs.

We have entered into transactions involving CMO trusts, which are VIEs. We will consolidate a CMO trust if we are the CMO trust's primary beneficiary; that is, if we have a variable interest that provides us with a controlling financial interest in the CMO trust. An entity is deemed to have a controlling financial interest if the entity has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses of or right to receive benefits from the VIE that could potentially be significant to the VIE. As part of the qualitative assessment in determining if we have a controlling financial interest, we evaluate whether we control the selection of financial assets transferred to the CMO trust. For each of our consolidated CMO trusts we controlled the selection of the Agency RMBS transferred from our investment portfolio to an investment bank in exchange for cash proceeds and at the same time entered into a commitment with the investment bank to purchase to-be-issued securities collateralized by the Agency RMBS transferred, which resulted in our consolidation of the CMO trusts. Agency RMBS transferred to consolidated VIEs are reported on our consolidated balance sheets in Agency securities transferred to consolidated VIEs, at fair value and can only be used to settle the obligations of each respective VIE.

We elected the option to account for the consolidated debt at fair value, with changes in fair value reflected in earnings during the period in which they occur, because we believe this election more appropriately reflects our financial position as both the consolidated assets and consolidated debt are presented in a consistent manner on our consolidated balance sheets.

We estimate the fair value of the consolidated debt based on the fair value of the Agency RMBS transferred to consolidated VIEs, less the fair value of our retained interests, which are measured on a market approach using "Level 2" inputs from third-party pricing services and dealer quotes. The fair value of the Agency RMBS transferred to the consolidated VIEs and the fair value of our retained interests are based on more observable inputs than inputs used to independently determine the value of our consolidated debt.

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 two stockholder derivative lawsuits alleging that certain of our current and former directors and officers breached fiduciary duties and wasted corporate assets in connection with 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 December 31, 2016, we did not accrue a loss contingency related to these matters.

Income Taxes

We elected to be taxed as a REIT under the provisions of the Internal Revenue Code and the corresponding provisions of state law, commencing with our initial tax year ended December 31, 2008. In order to continue to qualify as a REIT, we must annually distribute, in a timely manner to our stockholders, at least 90% of our taxable ordinary income, amongst other conditions. A REIT is generally not subject to U.S. federal and state corporate income tax on its earnings to the extent that it distributes its annual taxable net income to its stockholders and as long as certain asset, income and stock ownership tests are met. We operate in a manner that will allow us to be taxed as a REIT. As permitted by the Internal Revenue Code, a REIT can designate dividends paid in the subsequent year as dividends of the current year if those dividends are both declared by the extended due date of the REIT's federal income tax return and paid to stockholders by the last day of the subsequent year; however, we may still be subject to a non-deductible 4% excise tax if the actual amount distributed to our stockholders in a calendar year is less than the minimum amount specified under federal tax laws.

We have a wholly-owned subsidiary for which we elected to treat as taxable REIT subsidiary. As such it is subject to federal and state income tax based on its taxable income. All other subsidiaries are disregarded entities for U.S. federal income tax purposes. As such, their assets, liabilities and income are generally treated as our assets, liabilities and income for purposes of U.S. federal and state corporate income taxes.

We evaluate uncertain income tax positions, if any, in accordance with ASC Topic 740, Income Taxes ("ASC 740"). To the extent we incur interest and/or penalties in connection with our tax obligations, such amounts shall be classified as income tax expense on our consolidated statements of operations.

Goodwill and Other Intangible Assets, Net

Goodwill is the cost of an acquisition in excess of the fair value of identified assets acquired and liabilities assumed. Goodwill is recorded as an asset on our balance sheet. Acquired intangible assets that do not meet the criteria for recognition as a separate asset are included in goodwill. Goodwill is not subject to amortization but must be tested for impairment at least annually. Intangible assets meeting the criteria for recognition as separate assets are recorded at their respective fair market values at the date of acquisition. Intangible assets with an estimated useful life are amortized over their expected useful life. As of December 31, 2016, we had \$526 million of goodwill and \$28 million of other intangible assets, net of accumulated amortization, reported in goodwill and other intangible assets, net in our accompanying consolidated balance sheets related to our acquisition of AMM on July 1, 2016 (see Note 12 for further details).

We test goodwill for impairment on an annual basis and at interim periods when events or circumstances may make it more likely than not that an impairment has occurred. If a qualitative analysis indicates that there may be an impairment, a quantitative analysis is performed. The quantitative impairment test for goodwill utilizes a two-step approach whereby we compare the carrying value of the identified reporting unit comprising the goodwill to its fair value. If the carrying value of the reporting unit is greater than its fair value, the second step is performed, where the implied fair value of goodwill is determined and compared to its carrying value. An impairment charge is recognized

to the extent the carrying amount of goodwill exceeds its fair value.

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

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on our consolidated financial statements when adopted, or did not have a significant impact on our consolidated financial statements upon adoption.

ASU 2014-09, Revenue from Contracts with Customers (Topic 606): ASU 2014-09 is a comprehensive revenue recognition standard that supersedes virtually all existing revenue guidance under U.S. GAAP. The standard's core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Revenue recognition with respect to financial instruments is not within the scope of ASU 2014-09 and, therefore, it is not expected to have a significant impact on our consolidated financial statements. ASU 2014-09 is effective on January 1, 2018.

ASU 2016-09, Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting: ASU 2016-09 simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The ASU is effective on January 1, 2017, with early adoption permitted. We early adopted ASU 2016-09 during fiscal year 2016, which did not have a significant impact on our consolidated financial statements.

ASU 2016-13, Financial Instruments - Credit Losses (Topic 606): ASU 2016-13 changes the impairment model for most financial assets and certain other 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.

ASU 2016-18, Statement of Cash Flows (Topic 230) - Restricted Cash: ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 will be effective on January 1, 2018 and is not expected to have a significant impact on our consolidated financial statements.

Note 3. Investment Securities

As of December 31, 2016 and 2015, our investment portfolio consisted of \$46.5 billion and \$52.5 billion of investment securities, at fair value, respectively, summarized in the tables below, and \$11.2 billion and \$7.4 billion net TBA securities, at fair value, respectively. Our TBA position is reported at its net carrying value of \$(147) million and \$14 million as of December 31, 2016 and 2015, 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 (see Note 5 for further details of our net TBA position as of December 31, 2016 and 2015).

As of December 31, 2016 and 2015, our investment securities had a net unamortized premium balance of \$2.1 billion and \$2.3 billion, respectively, including interest and principal-only securities.

The following tables summarize our investment securities as of December 31, 2016 and 2015 (dollars in millions):

Investment Securities	December 31, 2016			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Agency RMBS:				
Fixed rate	\$45,145	\$ 210	\$ (619)	\$44,736
Adjustable rate	371	8	—	379
CMO	796	7	(2)	801
Interest-only and principal-only strips	268	31	(4)	295
Total Agency RMBS	46,580	256	(625)	46,211
Non-Agency RMBS	102	—	(1)	101
CMBS	23	—	—	23
CRT securities	161	3	—	164
Total investment securities	\$46,866	\$ 259	\$ (626)	\$46,499
Investments Securities	December 31, 2015			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Agency RMBS:				
Fixed rate	\$50,576	\$ 339	\$ (393)	\$ 50,522
Adjustable rate	484	11	—	495
CMO	973	18	(1)	990
Interest-only and principal-only strips	317	39	(3)	353
Total Agency RMBS	52,350	407	(397)	52,360
Non-Agency RMBS	114	—	(1)	113
Total investment securities	\$52,464	\$ 407	\$ (398)	\$ 52,473

Investment Securities	December 31, 2016			Non-Agency			Total	
	Agency RMBS Fannie Mae	Freddie Mac	Ginnie Mae	RMBS	CMBS	CRT		
Available-for-sale securities:								
Par value	\$34,244	\$10,008	\$44	\$101	\$—	\$—	\$44,397	
Unamortized discount	(43)	(3)	—	—	—	—	(46)	
Unamortized premium	1,518	544	—	1	—	—	2,063	
Amortized cost	35,719	10,549	44	102	—	—	46,414	
Gross unrealized gains	176	48	1	—	—	—	225	
Gross unrealized losses	(442)	(179)	—	(1)	—	—	(622)	
Total available-for-sale securities, at fair value	35,453	10,418	45	101	—	—	46,017	
Securities remeasured at fair value through earnings:								
Par value ¹	171	—	—	—	24	157	352	
Unamortized discount	(35)	—	—	—	(1)	—	(36)	
Unamortized premium	118	14	—	—	—	4	136	
Amortized cost	254	14	—	—	23	161	452	
Gross unrealized gains	28	3	—	—	—	3	34	
Gross unrealized losses	(3)	(1)	—	—	—	—	(4)	
Total securities remeasured at fair value through earnings	279	16	—	—	23	164	482	
Total securities, at fair value	\$35,732	\$10,434	\$45	\$101	\$23	\$164	\$46,499	
Weighted average coupon as of December 31, 2016	3.59	% 3.67	% 2.75%	3.42	% 6.55%	5.25	% 3.61	%
Weighted average yield as of December 31, 2016 ²	2.77	% 2.72	% 2.00%	3.27	% 7.54%	6.28	% 2.77	%

¹ Par value amount excludes the underlying unamortized principal balance ("UPB") of interest-only securities of \$0.9 billion as of December 31, 2016.

² Incorporates a weighted average future constant prepayment rate assumption of 8% based on forward rates as of December 31, 2016.

Investment Securities	December 31, 2015			Non-Agency		Total
	Agency RMBS Fannie Mae	Freddie Mac	Ginnie Mae	RMBS		
Available-for-sale securities:						
Par value	\$39,205	\$10,575	\$ 62	\$ 113		\$49,955
Unamortized discount	(32)	(4)	—	—		(36)
Unamortized premium	1,707	519	1	1		2,228
Amortized cost	40,880	11,090	63	114		52,147
Gross unrealized gains	286	80	2	—		368
Gross unrealized losses	(283)	(111)	—	(1)		(395)
Total available-for-sale securities, at fair value	40,883	11,059	65	113		52,120
Securities remeasured at fair value through earnings:						
Par value ¹	208	—	—	—		208
Unamortized discount	(42)	—	—	—		(42)
Unamortized premium	132	19	—	—		151

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Amortized cost	298	19	—	—	317
Gross unrealized gains	35	4	—	—	39
Gross unrealized losses	(2)	(1)	—	—	(3)
Total securities remeasured at fair value through earnings	331	22	—	—	353
Total securities, at fair value	\$41,214	\$11,081	\$ 65	\$ 113	\$52,473
Weighted average coupon as of December 31, 2015	3.62 %	3.69 %	3.18 %	3.50 %	3.63 %
Weighted average yield as of December 31, 2015 ²	2.79 %	2.77 %	1.97 %	3.33 %	2.78 %

1. Par value amount excludes the UPB of interest-only securities of \$1.0 billion as of December 31, 2015.

2. Incorporates a weighted average future constant prepayment rate assumption of 8% based on forward rates as of December 31, 2015.

As of December 31, 2016 and 2015, our investments in non-Agency securities had the following credit ratings:

Non-Agency Security Credit Ratings ¹	December 31, 2016			December 31, 2015	
	CRT	RMBS	CMBS	CRT	CMBS
AAA	\$—	\$ 99	\$ —	\$—	\$ —
BBB	—	—	23	—	—
B	164	2	—	—	—
Total	\$164	\$ 101	\$ 23	\$—	\$ —

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

Our CRT securities reference the performance of loans that have been guaranteed by Fannie Mae or Freddie Mac, subject to their underwriting standards. As of December 31, 2016, our CRT securities had floating rate coupons ranging from 4.6% to 7.1%, with weighted average coupons of underlying collateral ranging from 4.0% to 4.2%. The loans underlying our CRT securities were originated between 2015 and 2016.

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 December 31, 2016 and 2015, the weighted average expected constant prepayment rate ("CPR") over the remaining life of our aggregate investment portfolio was 8%. Our estimates differ materially for different types of securities and thus individual holdings have a wide range of projected CPRs.

The following table summarizes our investments classified as available-for-sale as of December 31, 2016 and 2015 according to their estimated weighted average life classification (dollars in millions):

Estimated Weighted Average Life of Securities Classified as Available-for-Sale	December 31, 2016				December 31, 2015			
	Fair Value	Amortized Cost	Weighted Average Coupon	Weighted Average Yield	Fair Value	Amortized Cost	Weighted Average Coupon	Weighted Average Yield
≥ 1 year and ≤ 3 years	\$414	\$ 410	3.99%	2.52%	\$167	\$ 163	4.02%	2.66%
> 3 years and ≤ 5 years	13,534	13,449	3.26%	2.40%	17,497	17,343	3.27%	2.40%
> 5 years and ≤ 10 years	30,226	30,713	3.65%	2.86%	34,206	34,391	3.67%	2.93%
> 10 years	1,843	1,842	3.02%	3.07%	250	250	3.56%	3.08%
Total	\$46,017	\$ 46,414	3.52%	2.73%	\$52,120	\$ 52,147	3.54%	2.75%

The following table presents the gross unrealized loss and fair values of our available-for-sale securities by length of time that such securities have been in a continuous unrealized loss position as of December 31, 2016 and 2015 (in millions):

Securities Classified as Available-for-Sale	Unrealized Loss Position For					
	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
December 31, 2016	\$28,397	\$ (554)	\$1,719	\$ (68)	\$30,116	\$ (622)
December 31, 2015	\$24,035	\$ (200)	\$6,793	\$ (195)	\$30,828	\$ (395)

We did not recognize any OTTI charges on our investment securities for fiscal years 2016 and 2015. As of the end of each respective reporting period, a decision had not been made to sell any of our 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 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 securities classified as available-for-sale for fiscal years 2016, 2015 and 2014 (in millions). Please refer to Note 8 for a summary of changes in accumulated OCI for the same periods.

Securities Classified as Available-for-Sale	Fiscal Year		
	2016	2015	2014
RMBS sold, at cost	\$(17,907)	\$(27,578)	\$(30,123)
Proceeds from RMBS sold ¹	18,016	27,555	30,174
Net gain (loss) on sale of RMBS	\$109	\$(23)	\$51
Gross gain on sale of RMBS	\$123	\$98	\$172
Gross loss on sale of RMBS	(14)	(121)	(121)
Net gain (loss) on sale of RMBS	\$109	\$(23)	\$51

1. Proceeds include cash received during the period, plus receivable for RMBS sold during the period as of period end. Securitizations and Variable Interest Entities

As of December 31, 2016 and 2015, we held investments in CMO trusts, which are variable interest entities ("VIEs"). We have consolidated certain of these CMO trusts in our consolidated financial statements where we have determined we are the primary beneficiary of the trusts. All of our CMO securities are 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 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.

In connection with our consolidated CMO trusts, we recognized Agency securities with a total fair value of \$0.8 billion and \$1.0 billion as of December 31, 2016 and 2015, respectively, and debt with a total fair value of \$460 million and \$595 million, respectively, in our accompanying consolidated balance sheets. As of December 31, 2016 and 2015, the Agency securities had an aggregate unpaid principal balance of \$0.8 billion and \$1.0 billion, respectively, and the debt had an aggregate unpaid principal balance of \$452 million and \$587 million, respectively. We re-measure our consolidated debt at fair value through earnings in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income. For fiscal years 2016, 2015 and 2014, we recorded a loss of \$3 million, a gain of \$16 million and a loss of \$10 million, respectively, associated with our consolidated debt. Our involvement with the consolidated trusts is limited to the Agency securities transferred by us upon the formation of the trusts and the CMO securities subsequently held by us. There are no arrangements that could require us to provide financial support to the trusts.

As of December 31, 2016 and 2015, the fair value of our CMO securities and interest and principal-only securities was \$1.1 billion and \$1.3 billion, respectively, excluding the consolidated CMO trusts discussed above, or \$1.5 billion and \$1.8 billion, respectively, including the net asset value of our consolidated CMO trusts. Our maximum exposure to loss related to our CMO securities and interest and principal-only securities, including our consolidated CMO trusts, was \$182 million and \$238 million as of December 31, 2016 and 2015, respectively.

Note 4. Repurchase Agreements and Other Secured Borrowings

We pledge certain of our securities as collateral under our repurchase agreements with financial institutions and under our secured borrowing facility with the Federal Home Loan Bank ("FHLB") of Des Moines. 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 December 31, 2016, we had met all margin call requirements. For additional information regarding our pledged assets, please refer to Note 6.

Repurchase Agreements

As of December 31, 2016 and 2015, we had \$37.9 billion and \$41.8 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 90 days have floating interest rates based on an index plus or minus a fixed spread. Substantially all of our repurchase agreements were used to fund purchases of Agency securities ("Agency repo"). The remainder of our repurchase agreements were used to fund temporary holdings of U.S. Treasury securities ("U.S. Treasury repo").

The following table summarizes our borrowings under repurchase agreements by their remaining maturities as of December 31, 2016 and 2015 (dollars in millions):

Remaining Maturity	December 31, 2016			December 31, 2015		
	Repurchase Agreements	Weighted Average Interest Rate	Weighted Average Days to Maturity	Repurchase Agreements	Weighted Average Interest Rate	Weighted Average Days to Maturity
Agency repo:						
≤ 1 month	\$17,481	0.90 %	11	\$17,579	0.54 %	14
> 1 to ≤ 3 months	10,011	0.93 %	55	14,283	0.64 %	58
> 3 to ≤ 6 months	2,030	1.02 %	136	3,154	0.61 %	121
> 6 to ≤ 9 months	1,270	0.98 %	214	589	0.65 %	199
> 9 to ≤ 12 months	1,566	1.08 %	299	1,201	0.65 %	307
> 12 to ≤ 24 months	1,203	1.28 %	538	1,473	0.73 %	600
> 24 to ≤ 36 months	1,300	1.36 %	865	650	0.81 %	901
> 36 to ≤ 48 months	2,200	1.32 %	1,168	1,300	0.86 %	1,231
> 48 to < 60 months	625	1.38 %	1,506	1,500	0.76 %	1,477
Total Agency repo	37,686	0.98 %	187	41,729	0.61 %	173
U.S. Treasury repo:						
1 day	—	— %	—	25	— %	1
> 1 day to ≤ 1 month	172	(0.30) %	17	—	— %	—
Total	\$37,858	0.98 %	186	\$41,754	0.61 %	173
Federal Home Loan Bank Advances						

On January 12, 2016, the Federal Housing Finance Agency ("FHFA") released its final rule on FHLB membership, which terminated of our wholly-owned captive insurance subsidiary's FHLB membership and required repayment of all FHLB advances at the earlier of their contractual maturity or a one year period that concluded in February 2017. As of December 31, 2016 and 2015, we had \$3.0 billion and \$3.8 billion, respectively, of outstanding secured FHLB advances, with a weighted average borrowing rate of 0.73% and 0.53%, respectively, and a weighted average remaining term to maturity of 28 and 141 days, respectively, consisting of 30 day and longer-term floating rate advances:

Remaining Maturity	December 31, 2016			December 31, 2015		
	FHLB Advances	Weighted Average Interest Rate	Weighted Average Days to Maturity	FHLB Advances	Weighted Average Interest Rate	Weighted Average Days to Maturity
≤ 1 month	\$1,353	0.67 %	7	\$1,952	0.47 %	14
> 1 to ≤ 3 months	1,684	0.77 %	44	681	0.60 %	84
13 months	—	— %	—	1,120	0.58 %	397
Total FHLB advances	\$3,037	0.73 %	28	\$3,753	0.53 %	141

Debt of Consolidated Variable Interest Entities

As of December 31, 2016 and 2015, debt of consolidated VIEs, at fair value, was \$460 million and \$595 million, respectively, and had a weighted average interest rate of LIBOR plus 36 and 34 basis points, respectively, and a principal balance of \$452 million and \$587 million, respectively. The actual maturities of our debt of consolidated VIEs are generally shorter than the stated contractual maturities. The actual maturities are affected by the contractual lives of the underlying Agency RMBS securitizing the debt of our consolidated VIEs and periodic principal prepayments of such underlying securities. The estimated weighted average life of the debt of our consolidated VIEs as of December 31, 2016 and 2015 was 5.8 and 4.9 years, respectively.

Note 5. Derivative and Other Hedging Instruments

As a function of our risk management strategy, we hedge a portion of our interest rate risk by entering into derivative and other hedging instrument contracts. The principal instruments that we use are interest rate swaps and interest rate swaptions and U.S. Treasury securities and U.S. Treasury futures contracts, primarily through short sales. We may also utilize TBA securities, purchase or write put or call options on TBA securities and other types of derivative instruments to hedge a portion of our risk. We also enter into TBA contracts as a means of investing in and financing Agency securities (thereby increasing our "at risk" leverage) or as a means of disposing of or reducing our exposure to Agency securities (thereby reducing our "at risk" leverage). Our risk management strategy attempts to manage the overall risk of the portfolio, reduce fluctuations in our net book value and generate additional income distributable to stockholders. For additional information regarding our derivative instruments and our overall risk management strategy, please refer to the discussion of derivative and other hedging instruments in Note 2.

Prior to September 30, 2011, our interest rate swaps were typically designated as cash flow hedges under ASC 815; however, as of September 30, 2011, we elected to discontinue hedge accounting for our interest rate swaps in order to increase our funding flexibility. For fiscal years 2016, 2015 and 2014, we reclassified \$39 million, \$101 million and \$156 million, respectively, of net deferred losses from accumulated OCI into interest expense related to our de-designated interest rate swaps and recognized an equal, but offsetting, amount in other comprehensive income. Our total net periodic interest costs on our swap portfolio were \$294 million, \$494 million and 486 million for fiscal years 2016, 2015 and 2014, respectively. The difference between our total net periodic interest costs on our swap portfolio and the amount recorded in interest expense related to our de-designated hedges is reported in gain (loss) on derivative instruments and other securities, net in our accompanying consolidated statements of comprehensive income (totaling \$255 million, \$393 million and 330 million for fiscal years 2016, 2015 and 2014, respectively). As of December 31, 2016, all of the net deferred losses related to de-designated interest rate swaps had been reclassified from accumulated OCI into interest expense.

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

The table below summarizes fair value information about our derivative and other hedging instrument assets/(liabilities) as of December 31, 2016 and 2015 (in millions):

Derivative and Other Hedging Instruments	Balance Sheet Location	December 31,	
		2016	2015
Interest rate swaps	Derivative assets, at fair value	\$321	\$31
Swaptions	Derivative assets, at fair value	22	17
TBA securities	Derivative assets, at fair value	4	29
U.S. Treasury futures - short	Derivative assets, at fair value	8	4
Total derivative assets, at fair value		\$355	\$81
Interest rate swaps	Derivative liabilities, at fair value	\$(105)	\$(920)

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TBA securities	Derivative liabilities, at fair value	(151)	(15)
Total derivative liabilities, at fair value		\$(256)	\$(935)
U.S. Treasury securities - long	U.S. Treasury securities, at fair value	\$182	\$25
U.S. Treasury securities - short	Obligation to return securities borrowed under reverse repurchase agreements, at fair value	(7,636)	(1,696)
Total U.S. Treasury securities, net at fair value		\$(7,454)	\$(1,671)

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The following table summarizes our interest rate swap agreements outstanding as of December 31, 2016 and 2015 (dollars in millions):

Payer Interest Rate Swaps	December 31, 2016					December 31, 2015				
	Notional Amount ¹	Average Fixed Pay Rate ²	Average Receive Rate ³	Net Fair Value	Average Maturity (Years)	Notional Amount ¹	Average Fixed Pay Rate ²	Average Receive Rate ³	Net Fair Value	Average Maturity (Years)
≤ 3 years	\$19,775	1.16%	0.92%	\$39	1.5	\$14,775	1.06%	0.40%	\$(23)	1.6
> 3 to ≤ 5 years	7,450	1.62%	0.91%	44	4.0	9,950	2.03%	0.40%	(203)	4.0
> 5 to ≤ 7 years	4,725	1.89%	0.91%	28	5.9	7,175	2.47%	0.44%	(230)	6.1
> 7 to ≤ 10 years	3,325	1.90%	0.91%	114	9.2	7,450	2.57%	0.39%	(342)	8.3
> 10 years	1,900	2.64%	0.91%	(9)	13.8	1,175	3.20%	0.39%	(91)	14.7
Total	\$37,175	1.48%	0.92%	\$216	3.9	\$40,525	1.89%	0.40%	\$(889)	4.6

As of December 31, 2016 and 2015, notional amount includes forward starting swaps of \$0.6 billion and \$4.5 billion, respectively, with an average forward start date of 1.2 and 0.7 years, respectively, and an average maturity of 10.7 and 5.5 years, respectively.

² Average fixed pay rate includes forward starting swaps. Excluding forward starting swaps, the average fixed pay rate was 1.46% and 1.75% as of December 31, 2016 and 2015, respectively.

³ Average receive rate excludes forward starting swaps.

The following tables summarize our interest rate payer swaption agreements, U.S. Treasury securities and U.S. Treasury futures outstanding as of December 31, 2016 and 2015 (dollars in millions):

Payer Swaptions	Option	Underlying Payer Swap					
Years to Expiration	Cost	Fair Value	Average Months to Expiration	Notional Amount	Average Fixed Pay Rate	Average Receive Rate (LIBOR)	Average Term (Years)
December 31, 2016							
Total ≤ 1 year	\$52	\$22	6	\$1,200	3.06%	3M	8.3
December 31, 2015							
Total ≤ 1 year	\$74	\$17	4	\$2,150	3.51%	3M	7.0
U.S. Treasury Securities							
December 31, 2016							
Maturity	Face			Net Fair Value	December 31, 2015		
	Amount	Cost	Net		Amount	Cost	Net
	Long / (Short)	Basis	Value	Long / (Short)	Basis	Fair Value	
5 years	\$(400)	\$(404)	\$(392)	\$(250)	\$(249)	\$(249)	
7 years	(3,056)	(3,041)	(2,930)	(354)	(353)	(352)	
10 years	(4,416)	(4,236)	(4,132)	(1,085)	(1,078)	(1,070)	
Total U.S. Treasury securities, net	\$(7,872)	\$(7,681)	\$(7,454)	\$(1,689)	\$(1,680)	\$(1,671)	
U.S. Treasury Futures							
December 31, 2016							
Maturity	Notional			Net Carrying Value ⁴	December 31, 2015		
	Amount - Long (Short) ¹	Cost Basis ²	Market Value ³		Amount - Long (Short) ¹	Cost Basis ²	Market Value ³
5 years	\$(730)	\$(862)	\$(859)	\$3	\$(730)	\$(866)	\$(864)
10 years	(1,080)	(1,347)	(1,342)	5	(1,130)	(1,424)	(1,422)
Total U.S. Treasury futures	\$(1,810)	\$(2,209)	\$(2,201)	\$8	\$(1,860)	\$(2,290)	\$(2,286)

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

The following tables summarize our TBA securities as of December 31, 2016 and 2015 (in millions):

TBA Securities by Coupon	December 31, 2016				December 31, 2015			
	Notional Amount - Long (Short) ¹	Cost Basis ²	Market Value ³	Net Carrying Value ⁴	Notional Amount - Long (Short) ¹	Cost Basis ²	Market Value ³	Net Carrying Value ⁴
15-Year TBA securities:								
2.5%	\$1,853	\$1,870	\$1,856	\$(14)	\$(80)	\$(81)	\$(80)	\$1
3.0%	292	302	300	(2)	225	233	232	(1)
3.5%	15	16	16	—	136	143	142	(1)
Total 15-Year TBA securities	2,160	2,188	2,172	(16)	281	295	294	(1)
30-Year TBA securities:								
3.0%	3,027	3,114	3,007	(107)	3,914	3,911	3,916	5
3.5%	1,209	1,251	1,236	(15)	1,497	1,536	1,539	3
4.0%	4,530	4,769	4,760	(9)	1,575	1,658	1,665	7
4.5%	(10)	(10)	(10)	—	28	30	30	—
Total 30-Year TBA securities, net	8,756	9,124	8,993	(131)	7,014	7,135	7,150	15
Total TBA securities, net	\$10,916	\$11,312	\$11,165	\$(147)	\$7,295	\$7,430	\$7,444	\$14

TBA Securities by Issuer	December 31, 2016				December 31, 2015			
	Notional Amount - Long (Short) ¹	Cost Basis ²	Market Value ³	Net Carrying Value ⁴	Notional Amount - Long (Short) ¹	Cost Basis ²	Market Value ³	Net Carrying Value ⁴
Fannie Mae	\$9,881	\$10,251	\$10,118	\$(133)	\$6,033	\$6,145	\$6,159	\$14
Freddie Mac	1,035	1,060	1,047	(13)	689	703	703	—
Ginnie Mae	—	1	—	(1)	573	582	582	—
TBA securities, net	\$10,916	\$11,312	\$11,165	\$(147)	\$7,295	\$7,430	\$7,444	\$14

1. Notional amount represents the par value (or principal balance) of the underlying Agency security.

2. Cost basis represents the forward price to be paid/(received) for the underlying Agency security.

3. Market value represents the current market value of the TBA contract (or of the underlying Agency security) as of period-end.

4. Net carrying value represents the difference between the market value and the cost basis of the TBA contract as of period-end and is reported in derivative assets/(liabilities), at fair value in our consolidated balance sheets.

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

The tables below summarize changes in our derivative and other hedge portfolio and their effect on our consolidated statements of comprehensive income for fiscal years 2016, 2015 and 2014 (in millions):

Derivative and Other Hedging Instruments	Fiscal Year 2016				Amount of Gain/(Loss) Recognized in Income on Derivatives ¹
	Notional Amount December 31, 2015	Additions	Settlement, Termination, Expiration or Exercise	Notional Amount December 31, 2016	
TBA securities, net	\$7,295	116,439	(112,818)	\$10,916	\$(59)
Interest rate swaps	\$40,525	15,650	(19,000)	\$37,175	(397)

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Payer swaptions	\$2,150	500	(1,450)	\$1,200	(3)	
U.S. Treasury securities - short position	\$(1,714)	(9,884)	3,537	\$(8,061)	134
U.S. Treasury securities - long position	\$25	961	(797)	\$189	7		
U.S. Treasury futures contracts - short position	\$(1,860)	(7,840)	7,890	\$(1,810)	(5
						\$	(323)

Excludes a net loss of \$3 million from debt of consolidated VIEs and other miscellaneous net gains of \$16 million
1. recognized in gain (loss) on derivative instruments and other securities, net in our consolidated statements of
comprehensive income.

Derivative and Other Hedging Instruments	Fiscal Year 2015				
	Notional Amount December 31, 2014	Additions	Settlement, Termination, Expiration or Exercise	Notional Amount December 31, 2015	Amount of Gain/(Loss) Recognized in Income on Derivatives ¹
TBA securities, net	\$ 14,412	119,922	(127,039)	\$ 7,295	\$ 305
Interest rate swaps	\$43,700	4,950	(8,125)	\$40,525	(932)
Payer swaptions	\$6,800	1,500	(6,150)	\$2,150	(35)
Receiver swaptions	\$(4,250)	—	4,250	\$—	4
U.S. Treasury securities - short position	\$(5,392)	(12,503)	16,181	\$(1,714)	(68)
U.S. Treasury securities - long position	\$2,411	33,525	(35,911)	\$25	(38)
U.S. Treasury futures contracts - short position	\$(730)	(4,480)	3,350	\$(1,860)	(12)
					\$ (776)

Excludes a net gain of \$16 million from debt of consolidated VIEs and other miscellaneous net losses of \$4 million recognized in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income.

Derivative and Other Hedging Instruments	Fiscal Year 2014				
	Notional Amount December 31, 2013	Additions	Settlement, Termination, Expiration or Exercise	Notional Amount December 31, 2014	Amount of Gain/(Loss) Recognized in Income on Derivatives ¹
TBA securities, net	\$2,119	213,627	(201,334)	\$ 14,412	\$ 1,117
Interest rate swaps	\$43,250	20,550	(20,100)	\$43,700	(1,838)
Payer swaptions	\$14,250	5,250	(12,700)	\$6,800	(193)
Receiver swaptions	\$—	(5,500)	1,250	\$(4,250)	11
U.S. Treasury securities - short position	\$(2,007)	(36,489)	33,104	\$(5,392)	(420)
U.S. Treasury securities - long position	\$3,927	18,549	(20,065)	\$2,411	66
U.S. Treasury futures contracts - short position	\$(1,730)	(2,920)	3,920	\$(730)	(76)
TBA put option	\$—	(150)	150	\$—	—
					\$ (1,333)

1. Excludes a net gain of \$75 million from investments in REIT equity securities, a net loss of \$10 million from debt of consolidate VIEs and other miscellaneous net losses of \$7 million recognized in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income.

Note 6. Pledged Assets

Our funding agreements require us to fully collateralize our obligations under the agreements based upon our counterparties' collateral requirements and their determination of the fair value of the securities pledged as collateral, which fluctuates with changes in interest rates, credit quality and liquidity conditions within the investment banking, mortgage finance and real estate industries. Our derivative contracts similarly require us to fully collateralize our obligations under such agreements, which will vary over time based on similar factors as well as our counterparties' determination of the value of the derivative contract. We are typically required to post initial collateral upon execution of derivative transactions, such as under our interest rate swap agreements and TBA contracts. Our prime brokerage agreements, pursuant to which we receive custody and settlement services, also require that we post minimum 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 in the event that 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 and clearinghouse guarantee funds and other resources that are available in the event of a clearing member default.

Further, each of our International Swaps and Derivatives Association ("ISDA") Master Agreements also contains a cross default provision under which a default under 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 December 31, 2016, 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.

As of December 31, 2016, our maximum amount at risk with any counterparty related to our repurchase agreements was less than 6% of our stockholders' equity and our maximum amount at risk with any counterparty related to our interest rate swap and swaption agreements, excluding centrally cleared swaps, was less than 1% of our stockholders' equity. The following table summarizes certain characteristics of our repurchase agreements outstanding with counterparties representing amounts at risk greater than or equal to 5% of our stockholders' equity as of December 31, 2016 (dollars in millions). As of December 31, 2015 the maximum amount of risk with any counterparty related to our repurchase agreements was less than 5% of our stockholders equity.

December 31, 2016

	Amount Outstanding	Net Counterparty Exposure ¹	Percent of Equity	Weighted Average Months to Maturity
J.P. Morgan Securities, LLC	\$4,875	\$ 405	5.5 %	34

1. Represents the net carrying value of the 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.

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 December 31, 2016 and 2015 (in millions):

Assets Pledged to Counterparties	December 31, 2016				
	Repurchase Agreements and FHLB Advances ¹	Debt of Consolidated VIEs	Derivative Agreements	Prime Broker Agreements	Total
Agency RMBS - fair value	\$43,005	\$ 818	\$ 275	\$ 865	\$44,963
Non-Agency RMBS - fair value	90	—	—	—	90
U.S. Treasury securities - fair value	173	—	—	—	173
Accrued interest on pledged securities	122	3	1	2	128
Restricted cash and cash equivalents	60	—	14	—	74
Total	\$43,450	\$ 821	\$ 290	\$ 867	\$45,428

1. Includes \$181 million of retained interests in our consolidated VIEs pledged as collateral under repurchase agreements.

Assets Pledged to Counterparties	December 31, 2015				
	Repurchase Agreements and FHLB Advances ¹	Debt of Consolidated VIEs	Derivative Agreements	Prime Broker Agreements	Total
Agency RMBS - fair value	\$47,992	\$ 1,029	\$ 148	\$ 485	\$49,654
Non-Agency RMBS - fair value	113	—	—	—	113
U.S. Treasury securities - fair value	25	—	—	—	25
Accrued interest on pledged securities	135	3	—	2	140
Restricted cash and cash equivalents	23	—	1,226	32	1,281
Total	\$48,288	\$ 1,032	\$ 1,374	\$ 519	\$51,213

1. Includes \$245 million of retained interests in our consolidated VIEs pledged as collateral under repurchase agreements.

As of December 31, 2016 and 2015, we held \$126 million and \$150 million, respectively, of membership and activity-based stock in the FHLB of Des Moines. FHLB stock is reported at cost, which equals par value, in other assets on our accompanying consolidated balance sheets. FHLB stock can only be redeemed or sold at its par value, and only to the FHLB of Des Moines.

The cash and cash equivalents and Agency securities pledged as collateral under our derivative agreements are included in restricted cash and cash equivalents and Agency securities, at fair value, respectively, on our consolidated balance sheets.

The following table summarizes our securities pledged as collateral under our repurchase agreements and FHLB advances by the remaining maturity of our borrowings, including securities pledged related to sold but not yet settled securities, as of December 31, 2016 and 2015 (in millions). For the corresponding borrowings associated with the following amounts and the interest rates thereon, refer to Note 4.

Securities Pledged by Remaining Maturity of Repurchase Agreements and FHLB Advances	December 31, 2016			December 31, 2015		
	Fair Value of Pledged Securities	Amortized Cost of Pledged Securities	Accrued Interest on Pledged Securities	Fair Value of Pledged Securities	Amortized Cost of Pledged Securities	Accrued Interest on Pledged Securities
RMBS: ¹						
≤ 30 days	\$ 19,681	\$ 19,863	\$ 56	\$ 20,053	\$ 20,075	\$ 57
> 30 and ≤ 60 days	8,103	8,158	23	8,311	8,340	23
> 60 and ≤ 90 days	4,034	4,070	11	7,534	7,525	21
> 90 days	11,278	11,380	32	12,207	12,187	34
Total MBS	43,096	43,471	122	48,105	48,127	135
U.S. Treasury securities:						
1 day	—	—	—	25	25	—
> 1 day ≤ 30 days	173	173	—	—	—	—
Total	\$ 43,269	\$ 43,644	\$ 122	\$ 48,130	\$ 48,152	\$ 135

¹ Includes \$181 million and \$245 million of retained interests in our consolidated VIEs pledged as collateral under repurchase agreements as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, none of our borrowings backed by RMBS were due on demand or mature overnight.

The table above excludes Agency securities transferred to our consolidated VIEs. 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 Notes 3 and 4 for additional information regarding our consolidated VIEs.

Assets Pledged from Counterparties

As of December 31, 2016 and 2015, we had assets pledged to us from counterparties as collateral under our reverse repurchase, repurchase and derivative agreements summarized in the tables below (in millions).

Assets Pledged to AGNC	December 31, 2016				December 31, 2015			
	Reverse Repurchase Agreements	Derivative Agreements	Repurchase Agreements	Total	Reverse Repurchase Agreements	Derivative Agreements	Repurchase Agreements	Total
Agency MBS - fair value	\$ —	\$ —	\$ 14	\$ 14	\$ —	\$ —	\$ —	\$ —
U.S. Treasury securities - fair value	7,636	—	—	7,636	1,702	—	—	1,702
Cash	—	107	—	107	—	—	—	—
Total	\$ 7,636	\$ 107	\$ 14	\$ 7,757	\$ 1,702	\$ —	\$ —	\$ 1,702

U.S. Treasury securities received as collateral under our reverse repurchase agreements that 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 December 31, 2016 and 2015 (in millions):

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	Offsetting of Financial and Derivative Assets					
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets	Collateral Received	Net Amount
December 31, 2016						
Interest rate swap and swaption agreements, at fair value ¹	\$342	\$ —	—\$ 342	\$(80)	\$(49)	\$ 213
TBA	4	—	4	(4)	—	—
Receivable under reverse repurchase agreements	7,716	—	7,716	(6,963)	(753)	—
Total	\$8,062	\$ —	—\$ 8,062	\$(7,047)	\$(802)	\$ 213
December 31, 2015						
Interest rate swap and swaption agreements, at fair value ¹	\$48	\$ —	—\$ 48	\$(31)	\$ —	\$ 17
TBA	29	—	29	(15)	—	14
Receivable under reverse repurchase agreements	1,713	—	1,713	(1,356)	(357)	—
Total	\$1,790	\$ —	—\$ 1,790	\$(1,402)	\$(357)	\$ 31

	Offsetting of Financial and Derivative Liabilities					
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets	Collateral Pledged ²	Net Amount
December 31, 2016						
Interest rate swap agreements, at fair value ¹	\$105	\$ —	—\$ 105	\$(80)	\$(25)	\$ —
TBA	151	—	151	(4)	(147)	—
Repurchase agreements and FHLB advances	40,895	—	40,895	(6,963)	(33,932)	—
Total	\$41,151	\$ —	—\$ 41,151	\$(7,047)	\$(34,104)	\$ —
December 31, 2015						
Interest rate swap agreements, at fair value ¹	\$920	\$ —	—\$ 920	\$(31)	\$(889)	\$ —
TBA	15	—	15	(15)	—	—
Repurchase agreements and FHLB advances	45,507	—	45,507	(1,356)	(44,151)	—
Total	\$46,442	\$ —	—\$ 46,442	\$(1,402)	\$(45,040)	\$ —

¹ Reported under derivative assets/liabilities, at fair value in the accompanying consolidated balance sheets. Refer to Note 5 for a reconciliation of derivative assets/liabilities, at fair value to their sub-components.

² Includes cash and securities pledged/received as collateral, at fair value. Amounts presented are limited to collateral pledged sufficient to reduce the net amount to zero for individual counterparties, as applicable.

Note 7. Fair Value Measurements

We determine the fair value of our investment securities and debt of consolidated VIEs based upon fair value estimates obtained from multiple third party pricing services and dealers. In determining fair value, third party pricing sources use various valuation approaches, including market and income approaches. Factors used by third party sources in estimating the fair value of an instrument may include observable inputs such as coupons, primary and secondary mortgage rates, pricing information, credit data, volatility statistics, and other market data that are current as of the measurement date. 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 foreclosures, 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. For further information regarding valuation of our derivative instruments, please refer to the discussion of derivative and other hedging instruments in Note 2.

We review the various third party fair value estimates and perform procedures to validate their reasonableness, including an analysis of the range of third party estimates for each position, comparison to recent trade activity for similar securities, and management review for consistency with market conditions observed as of the measurement date. While we do not adjust prices we obtain from third party pricing sources, we will exclude third party prices for securities from our determination of fair value if we determine (based on our validation procedures and our market knowledge and expertise) that the price is significantly different from 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 classification. We utilize a three-level valuation hierarchy for disclosure of fair value measurement. 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. There were no transfers between hierarchy levels during fiscal years December 31, 2016. The three levels of hierarchy are defined as follows:

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

Level 2 Inputs —Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Inputs —Instruments with primarily unobservable market data that cannot be corroborated.

The following table provides a summary of our assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2016 and 2015 (in millions):

	December 31, 2016			December 31, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:						
Agency securities	\$—	\$45,393	\$—	\$—	\$51,331	\$—
Agency securities transferred to consolidated VIEs	—	818	—	—	1,029	—
Non-Agency securities	—	124	—	—	113	—
Credit risk transfer securities	—	164	—	—	—	—
U.S. Treasury securities	182	—	—	25	—	—
Interest rate swaps	—	321	—	—	31	—
Swaptions	—	22	—	—	17	—
TBA securities	—	4	—	—	29	—
U.S. Treasury futures	8	—	—	4	—	—
REIT equity securities	—	—	—	33	—	—
Total	\$190	\$46,846	\$—	\$62	\$52,550	\$—
Liabilities:						
Debt of consolidated VIEs	\$—	\$460	\$—	\$—	\$595	\$—
Obligation to return U.S. Treasury securities borrowed under reverse repurchase agreements	7,636	—	—	1,696	—	—
Interest rate swaps	—	105	—	—	920	—
TBA securities	—	151	—	—	15	—
Total	\$7,636	\$716	\$—	\$1,696	\$1,530	\$—

We elected the option to account for debt of consolidated VIEs at fair value with changes in fair value reflected in earnings during the period in which they occur, because we believe this election more appropriately reflects our financial position as both

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the consolidated Agency securities and consolidated debt are presented in a consistent manner, at fair value, on our consolidated balance sheets. We estimate the fair value of the consolidated debt based on difference between the fair value of the RMBS transferred to consolidated VIEs and the fair value of our retained interests, each of which is based on valuations obtained from third-party pricing services and non-binding dealer quotes derived from common market pricing methods using "Level 2" inputs, and are more observable than using inputs to estimate the fair value of the consolidated debt on a stand-alone basis.

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 and FHLB advances, 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 and FHLB advances, 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.

Note 8. 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. Our Board of Directors has designated 6.9 million shares as 8.000% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock") and 8,050 shares as 7.750% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock"). As of December 31, 2016, we had 3.1 million shares of authorized but unissued shares of preferred stock. Our Board of Directors may designate additional series of authorized preferred stock ranking junior to or in parity with the Series A or Series B Preferred Stock or designate additional shares of the Series A or Series B Preferred Stock and authorize the issuance of such shares.

In April 2012, we completed a public offering in which 6.9 million shares of our Series A Preferred Stock were sold to the underwriters at a price of \$24.2125 per share for proceeds, net of offering expenses, of \$167 million. In May 2014, we completed a public offering in which 7.0 million depositary shares were sold to the underwriters at a price of \$24.2125 per depositary share for proceeds, net of offering expenses, of \$169 million. Each depositary share represents a 1/1,000th interest in a share of our Series B Preferred Stock.

Our Series A and Series B Preferred Stock have no stated maturity, are not subject to any sinking fund or mandatory redemption and rank on parity with each other. Under certain circumstances upon a change of control, our Series A and Series B Preferred Stock are convertible to shares of our common stock. Holders of our Series A Preferred Stock and depositary shares underlying our Series B Preferred Stock have no voting rights, except under limited conditions, and are entitled to receive cumulative cash dividends at a rate of 8.000% and 7.750% per annum, respectively, of their \$25.00 per share and \$25.00 per depositary share liquidation preference, respectively, before holders of our common stock are entitled to receive any dividends. Shares of our Series A Preferred Stock and depositary shares underlying our Series B Preferred Stock are each redeemable at \$25.00 per share, plus accumulated and unpaid dividends (whether or not declared) exclusively at our option commencing on April 5, 2017 and May 8, 2019, respectively, or earlier under certain circumstances intended to preserve our qualification as a REIT for federal income tax purposes. Dividends are payable quarterly in arrears on the 15th day of each January, April, July and October. As of December 31, 2016, we had declared all required quarterly dividends on our Series A and Series B Preferred Stock.

Common Stock Repurchase Program

In October 2012, our Board of Directors adopted a program that provided for stock repurchases, which, as amended, authorized repurchases of our common stock up to \$2 billion through December 31, 2016. In October 2016, our Board of Directors terminated the existing stock repurchase program, which had a total of \$0.6 billion remaining for authorized repurchases of our common stock, and replaced it with a new stock repurchase authorization. Under the new stock repurchase program, we are authorized to repurchase up to \$1 billion of our outstanding shares of common stock through December 31, 2017.

Shares of our common stock may be purchased in the open market, including through block purchases, or through privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1

of the Securities Exchange Act of 1934, as amended. The timing, manner, price and amount of any repurchases will be determined at our discretion and the program may be suspended, terminated or modified at any time for any reason. Among other factors, we intend to only consider repurchasing shares of our common stock when the purchase price is less than our estimate of our current tangible net asset value per common share. Generally, when we repurchase our common stock at a discount to our tangible net asset value, the tangible net asset value of our remaining shares of common stock outstanding increases. In addition, we do not intend to repurchase any shares from directors, officers or other affiliates. The program does not obligate us to acquire any specific number of shares, and all repurchases will be made in accordance with Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of stock repurchases.

During the fiscal years 2016, 2015 and 2014, we repurchased 6.5 million, 15.3 million, and 3.4 million shares of our common stock at an average repurchase price of \$17.89, \$18.58 and \$22.10 per share, including expenses, totaling \$116 million, \$285 million and \$74 million. As of December 31, 2016, the total remaining amount authorized for repurchases of our common stock was \$1 billion.

Distributions to Stockholders

The following table summarizes cash dividends declared for fiscal years 2016, 2015 and 2014 (in millions, except per share amounts):

	Dividends Declared	Dividends Declared Per Share
8.000 % Series A Cumulative Redeemable Preferred Stock		
Fiscal year 2016	\$ 14	\$2.000000
Fiscal year 2015	\$ 14	\$2.000000
Fiscal year 2014	\$ 14	\$2.000000
7.750% Series B Cumulative Redeemable Preferred Stock (Per Depositary Share)		
Fiscal year 2016	\$ 14	\$1.937500
Fiscal year 2015	\$ 14	\$1.937500
Fiscal year 2014	\$ 6	\$0.844965
Common Stock		
Fiscal year 2016	\$ 763	\$2.300000
Fiscal year 2015	\$ 863	\$2.480000
Fiscal year 2014	\$ 921	\$2.610000

Accumulated Other Comprehensive Income (Loss)

The following table summarizes changes to accumulated OCI for fiscal years 2016, 2015 and 2014 (in millions):

Accumulated Other Comprehensive Income (Loss)	Net Unrealized Gain (Loss) on Available-for-Sale MBS	Net Unrealized Gain (Loss) on Swaps	Total Accumulated OCI Balance
Balance as of December 31, 2013	\$ (1,087)	\$ (296)	\$ (1,383)
OCI before reclassifications	1,708	—	1,708
Amounts reclassified from accumulated OCI	(51)	156	105
Balance as of December 31, 2014	570	(140)	430
OCI before reclassifications	(620)	—	(620)
Amounts reclassified from accumulated OCI	23	101	124
Balance as of December 31, 2015	(27)	(39)	(66)
OCI before reclassifications	(261)	—	(261)
Amounts reclassified from accumulated OCI	(109)	39	(70)
Balance as of December 31, 2016	\$ (397)	\$ —	\$ (397)

The following table summarizes reclassifications out of accumulated OCI for fiscal years 2016 and 2015 (in millions):

Amounts Reclassified from Accumulated OCI	Fiscal Year			Line Item in the Consolidated Statements of Comprehensive Income
	2016	2015	2014	Where Net Income is Presented
(Gain) loss amounts reclassified from accumulated OCI for available-for-sale MBS upon realization	\$(109)	\$23	\$(51)	Gain (loss) on sale of mortgage-backed securities, net
Periodic interest costs of interest rate swaps previously designated as hedges under GAAP, net	39	101	156	Interest expense
Total reclassifications	\$(70)	\$124	\$105	

Note 9. Equity Incentive Plans

We sponsor an equity incentive plan to provide for the issuance of equity-based awards, including stock options, restricted stock, restricted stock units and unrestricted stock awards to our independent directors (the "Director Plan"). During fiscal years 2016, 2015 and 2014, we granted restricted stock unit ("RSU") awards under the plan totaling \$625,000, \$625,000 and \$375,000, respectively. The awards represent the right to receive an equivalent number of shares of common stock as measured by the closing price of our common stock on the grant date, plus any equivalent shares for dividends declared on our common stock, and vest over a 13 month period, subject to the terms and conditions of the plan. Prior to fiscal year 2013, we granted restricted stock awards under the Plan. The restricted stock awards had a grant date fair value equal to the closing price of our common stock on such date and vested annually over three years. The Director Plan was terminated and succeeded in its entirety by the 2016 Equity and Incentive Compensation Plan (the "2016 Equity Plan"), which was approved by our stockholders on December 9, 2016. Outstanding awards under the Director Plan, however, will continue in effect in accordance with their terms. The following table summarizes restricted stock and RSU transactions under the Director Plan for fiscal years 2016, 2015 and 2014:

Director Plan	Shares of Restricted Stock	Restricted Stock Units	Weighted Average Grant Date Fair Value ¹	Weighted Average Vest Date Fair Value ²
Unvested balance as of December 31, 2013	27,000	—	\$ 30.37	\$ —
Granted	—	16,770	\$ 22.36	\$ —
Accrued RSU dividend equivalents	—	1,469	\$ —	\$ —
Vested	(13,000)	—	\$ 30.01	\$ 22.01
Unvested balance as of December 31, 2014	14,000	18,239	\$ 25.11	\$ —
Granted	—	28,880	\$ 21.64	\$ —
Accrued RSU dividend equivalents	—	3,319	\$ —	\$ —
Vested	(9,000)	(19,007)	\$ 23.17	\$ 21.03
Unvested balance as of December 31, 2015	5,000	31,431	\$ 21.44	\$ —
Granted	—	33,015	\$ 18.93	\$ —
Accrued RSU dividend equivalents	—	3,527	\$ —	\$ —
Vested	(5,000)	(46,538)	\$ 20.00	\$ 18.99
Unvested balance as of December 31, 2016	—	21,435	\$ 17.49	\$ —

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

2. Weighted average vest date fair value is based on the closing price of our common stock on the vest date.

The 2016 Equity Plan provides for grants of equity-based compensation in the form of stock options, appreciation rights ("SARs"), restricted shares, RSUs, performance shares, performance units, dividend equivalents and certain other awards denominated or payable in, or otherwise based on, shares of our common stock, plus cash incentive awards, for the purpose of providing our non-employee directors, officers and other employees, and those of our subsidiaries, incentives and rewards for service or performance. The 2016 Equity Plan authorizes a total of 10 million shares of our common stock that may be used to satisfy awards under the plan, subject to the share counting rules set forth within the plan. The Compensation Committee of our Board of Directors determines awards to be granted under the 2016 Equity Plan and the terms of such awards, including vesting schedules. During fiscal year 2016, we granted RSU awards under the plan totaling \$2 million. The awards represent the right to receive an equivalent number of shares of common stock as measured by the closing price of our common stock on the grant date, or 101,407 shares, plus any equivalent shares for dividends declared on our common stock, and vest over a three year period, subject to the terms and conditions of the plan. As of December 31, 2016, 9.9 million shares remained available for awards under the 2016 Equity Plan, excluding securities to be issued for prior awards granted under the plan.

We recognize the cost of equity-based compensation awards based on the grant-date fair value of those awards, or the fair value of liabilities incurred, over the requisite service period. We recognize the impact of forfeitures as they occur. During fiscal years 2016, 2015 and 2014, we recognized other operating expense of \$731,000, \$704,000 and \$540,000, respectively, under the Director Plan and during fiscal year 2016 we recognized compensation expense of \$28,000 under the 2016 Equity Plan. As of December 31, 2016, we had unrecognized expense related to awards granted under the plans of approximately \$2 million, which is expected to be recognized over a weighted average period of 2.8 years.

Note 10. Income Taxes

As of December 31, 2016, we have distributed all of our estimated taxable income for fiscal year 2016. Accordingly, we do not expect to incur an income tax liability on our 2016 taxable income. For fiscal years 2015 and 2014, we distributed all of

our taxable income within the limits prescribed by the Internal Revenue Code. Accordingly, we did not incur an income tax liability on our taxable income for such periods.

Based on our analysis of any potential uncertain income tax positions, we concluded that we do not have any uncertain tax positions that meet the recognition or measurement criteria of ASC 740 as of December 31, 2016, 2015 and 2014. Our tax returns for tax years 2013 and forward are open to examination by the IRS. In the event that we incur income tax related interest and penalties, our policy is to classify them as a component of provision for income taxes.

Note 11. Management Agreement and Related Party Transactions

Prior to our acquisition of AMM on July 1, 2016, we were externally managed by AGNC Management, LLC (our "Manager"). We paid our Manager a management fee payable monthly in arrears in an amount equal to one-twelfth of 1.25% of our month-end stockholders' equity, adjusted to exclude the effect of any unrealized gains or losses included in either retained earnings or accumulated OCI, each as computed in accordance with GAAP. There was no incentive compensation payable to our Manager pursuant to the management agreement. We incurred management fees of \$52 million, \$116 million and \$119 million for the first half of fiscal year 2016 and for fiscal years 2015 and 2014, respectively. Following our management internalization, we no longer incur a management fee, but we incur expenses associated with an internally managed organization, including compensation expense previously borne by our Manager. For fiscal year 2016, we had compensation and benefits expense of \$19 million, consisting of base salary, bonus accruals and benefits expense.

Our management agreement provided for automatic annual one-year renewal terms and could only be terminated by us or our Manager without cause, as defined in the management agreement, after the completion of the then current renewal term, provided that either party provided 180-days prior written notice of non-renewal of the management agreement. If we were to not renew the management agreement without cause, we would have been required to pay a termination fee on the last day of the applicable term, equal to three times the average annual management fee earned by our Manager during the prior 24-month period immediately preceding the most recently completed month prior to the effective date of termination. We could only not renew the management agreement with or without cause with the consent of the majority of our independent directors.

Pursuant to our management agreement, we were also obligated to reimburse our Manager for its expenses incurred directly related to our operations, excluding employment-related expenses of our Manager's officers and employees and any American Capital employees who provided services to us pursuant to the management agreement. For fiscal years 2016, 2015 and 2014, we recorded expense reimbursements to our Manager of \$3 million, \$8 million and \$8 million, respectively, primarily consisting of costs related to information technology systems.

During fiscal year 2016, following our acquisition of AMM, we earned management fees of \$8 million from our management of MTGE.

Note 12. Business Combination - Acquisition of AGNC Mortgage Management, LLC

On July 1, 2016, we completed our acquisition of all of the outstanding membership interests of AMM from ACAM, a wholly owned portfolio company of ACAS, for a purchase price of \$562 million in cash. Following the closing of the acquisition, we became internally managed and are no longer affiliated with ACAS. The results of AMM's operations have been included in our consolidated financial statements since that date. We believe internalizing our management function will result in lower operating costs as well as provide management fee income from MTGE.

Our acquisition of AMM is accounted for as a business combination using the acquisition method of accounting, whereby the total purchase price has been allocated to identifiable assets acquired and liabilities assumed based on their respective fair values as of the acquisition date. Goodwill is calculated as the excess of the consideration transferred over the net assets acquired that meet the criteria for separate recognition and represents the estimated future economic benefits arising from these and other assets acquired that could not be individually identified or do not qualify for recognition as a separate asset. A large majority of the acquisition price has been recognized as goodwill, which is attributable to our pre-existing management agreement with AMM that does not qualify for separate recognition. Goodwill is expected to be deductible for income tax purposes over a 15 year amortization

period. We did not recognize a gain or loss associated with the effective settlement of our management agreement with AMM on the acquisition date based on comparable agreements available in the market.

The fair values of intangible assets acquired were determined using a market-based measurement under the income approach based on primarily unobservable market data that cannot be corroborated and, thus, represent a level 3 measurement (see Note 7). The primary market-based inputs include forecasted revenues and expenses, discount rate and corporate income tax rate.

The following table summarizes the fair values of assets acquired and liabilities assumed at the acquisition date (in millions).

	July 1, 2016(Acquisition Date)
Cash	\$ 7
MTGE management agreement	29
Other intangible asset	1
Total identifiable assets	37
Accounts payable and other liabilities	(1)
Identifiable net assets acquired	36
Goodwill	526
Net assets acquired	\$ 562

The MTGE management agreement is being amortized over a 10 year amortization period. We recognized \$9 million of transaction related costs that were expensed during fiscal year 2016. These costs are included in other operating expenses in our consolidated statements of comprehensive income.

AMM's revenue and net loss included in our consolidated statements of comprehensive income from the acquisition date to December 31, 2016 are \$8 million and \$(11) million, respectively, after elimination of AGNC's management fee and other intercompany transactions. The following table represents our pro forma consolidated revenue and net income as if AMM had been included in our consolidated results for fiscal year 2015 and for all of fiscal year 2016 (in millions). Revenue includes interest income from our investment portfolio and management fee income from managing MTGE. Amounts have been calculated after applying our accounting policies and adjusting AMM's results to reflect amortization expense that would have been charged assuming the fair value adjustments to intangible assets had been applied on January 1, 2015. All AGNC management fees and all other actual and pro forma intercompany transactions have been eliminated. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what operating results would have been had the AMM acquisition occurred on January 1, 2015 and may not be indicative of future operating results.

	Pro Forma Consolidated Revenue and Net Income Fiscal Year	
	2016	2015
Revenue	\$1,337	\$1,483
Net Income	\$661	\$303

Note 13. Quarterly Results (Unaudited)

The following is a presentation of the quarterly results of operations and comprehensive income for fiscal years 2016 and 2015 (in millions, except per share data).

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	Quarter Ended			
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
Interest income:				
Interest income	\$295	\$318	\$ 315	\$ 393
Interest expense	99	101	96	98
Net interest income	196	217	219	295
Other gain (loss):				
Gain (loss) on sale of investment securities, net	(2)	55	61	(5)
Unrealized gain (loss) on investment securities measured at fair value through net income, net	11	—	(6)	(11)
Gain (loss) on derivative instruments and other securities, net	(944)	(367)	248	753
Management fee income	—	—	4	4
Total other gain (loss), net	(935)	(312)	307	741
Expenses:				
Management fee expense	27	25	—	—
Compensation and benefits	—	—	9	10
Other operating expenses	6	15	6	7
Total expenses	33	40	15	17
Net income (loss)	(772)	(135)	511	1,019
Dividend on preferred stock	7	7	7	7
Net income (loss) available (attributable) to common shareholders	\$(779)	\$(142)	\$ 504	\$ 1,012
Net income (loss)	\$(772)	\$(135)	\$ 511	\$ 1,019
Other comprehensive income (loss):				
Unrealized gain (loss) on available-for-sale securities, net	765	370	(97)	(1,408)
Unrealized gain on derivative instruments, net	19	12	7	1
Other comprehensive income (loss)	784	382	(90)	(1,407)
Comprehensive income (loss)	12	247	421	(388)
Dividend on preferred stock	7	7	7	7
Comprehensive income (loss) available (attributable) to common shareholders	\$5	\$240	\$ 414	\$(395)
Weighted average number of common shares outstanding - basic and diluted	334.4	331.0	331.0	331.0
Net income (loss) per common share - basic and diluted	\$(2.33)	\$(0.43)	\$ 1.52	\$ 3.06
Comprehensive income (loss) per common share - basic and diluted	\$0.01	\$0.73	\$ 1.25	\$(1.19)
Dividends declared per common share	\$0.60	\$0.60	\$ 0.56	\$ 0.54

	Quarter Ended			
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
Interest income:				
Interest income	\$383	\$414	\$295	\$374
Interest expense	86	81	77	86
Net interest income	297	333	218	288
Other gain (loss):				
Gain (loss) on sale of investment securities, net	36	(22)	(39)	2
Unrealized gain (loss) on investment securities measured at fair value through net income, net	11	(7)	10	(9)
Gain (loss) on derivative instruments and other securities, net	(560)	244	(788)	340
Total other gain (loss), net	(513)	215	(817)	333
Expenses:				
Management fees	30	29	29	28
General and administrative expenses	6	7	5	5
Total expenses	36	36	34	33
Net income (loss)	(252)	512	(633)	588
Dividend on preferred stock	7	7	7	7
Net income (loss) available (attributable) to common shareholders	\$(259)	\$505	\$(640)	\$581
Net income (loss)	\$(252)	\$512	\$(633)	\$588
Other comprehensive income (loss):				
Unrealized gain (loss) on available-for-sale securities, net	391	(872)	467	(583)
Unrealized gain on derivative instruments, net	29	26	24	22
Other comprehensive income (loss)	420	(846)	491	(561)
Comprehensive income (loss)	168	(334)	(142)	27
Dividend on preferred stock	7	7	7	7
Comprehensive income (loss) available (attributable) to common shareholders	\$161	\$(341)	\$(149)	\$20
Weighted average number of common shares outstanding-basic and diluted	352.8	352.1	347.8	341.6
Net income (loss) per common share - basic and diluted	\$(0.73)	\$1.43	\$(1.84)	\$1.70
Comprehensive income (loss) per common share - basic and diluted	\$0.46	\$(0.97)	\$(0.43)	\$0.06
Dividends declared per common share	\$0.66	\$0.62	\$0.60	\$0.60

Note 14. Subsequent Events

On each of January 12, 2017 and February 14, 2017, our Board of Directors declared a monthly dividend of \$0.18 per common share, payable on February 8, 2017 and March 8, 2017, respectively, to common stockholders of record as of January 31, 2017 and February 28, 2017, respectively.

On February 1, 2017, we entered into sales agreements with underwriters to publicly offer and sell shares of our common stock, from time-to-time, through publicly negotiated and/or at-the-market transactions, up to an aggregate offering amount of \$750 million.

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

None.

Item 9A. Controls and Procedures

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

We, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2016. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting

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

Attestation Report of Registered Public Accounting Firm

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

Changes in Internal Control over Financial Reporting

There have been no changes in our "internal control over financial reporting" (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. As previously disclosed, we completed the acquisition of AMM on July 1, 2016. Where appropriate, we are reviewing related internal controls and making changes to align and integrate AMM into our financial control environment. This initiative is being done as a part of our integration plan and is not in response to any identified deficiency or weakness in the Company's or AMM's internal control over financial reporting.

Item 9B. Other Information

None.

PART III.

Item 10. Directors, Executive Officers and Corporate Governance

Information in response to this Item is incorporated herein by reference to the information provided in our Proxy Statement for our 2017 Annual Meeting of Stockholders (the "2017 Proxy Statement") under the headings "PROPOSAL 1: ELECTION OF DIRECTORS", "EXECUTIVE OFFICERS", "BOARD AND GOVERNANCE MATTERS", and "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE."

Item 11. Executive Compensation

Information in response to this Item is incorporated herein by reference to the information provided in the 2017 Proxy Statement under the headings "PROPOSAL 1: ELECTION OF DIRECTORS", "EXECUTIVE COMPENSATION", "COMPENSATION DISCUSSION AND ANALYSIS", "REPORT OF THE COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE", and "COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION."

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

Information in response to this Item is incorporated herein by reference to the information provided in the 2017 Proxy Statement under the heading "SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS."

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

Information in response to this Item is incorporated herein by reference to the information provided in the 2017 Proxy Statement under the headings "CERTAIN TRANSACTIONS WITH RELATED PERSONS" and "PROPOSAL 1: ELECTION OF DIRECTORS."

Item 14. Principal Accounting Fees and Services

Information in response to this Item is incorporated herein by reference to the information provided in the 2017 Proxy Statement under the heading "PROPOSAL 4: RATIFICATION OF APPOINTMENT OF INDEPENDENT PUBLIC ACCOUNTANT."

Item 15. Exhibits and Financial Statement Schedules

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

(1) The following financial statements are filed herewith:

Consolidated Balance Sheets as of December 31, 2016 and 2015

Consolidated Statements of Comprehensive Income for fiscal years 2016, 2015 and 2014

Consolidated Statements of Stockholders' Equity for fiscal years 2016, 2015 and 2014

Consolidated Statements of Cash Flows for fiscal years 2016, 2015 and 2014

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

Exhibit Description

*2.1 Purchase and Sale Agreement, dated as of May 23, 2016, by and among American Capital Asset Management, LLC, American Capital Mortgage Management, LLC, American Capital, Ltd. and American Capital Agency Corp., incorporated by reference to Exhibit 2.1 of Form 8-K (File No. 001-34057), filed May 25, 2016.

*3.1 AGNC Investment Corp. Amended and Restated Certificate of Incorporation, as amended, incorporated herein by reference to Exhibit 3.1 of Form 10-Q for the quarter ended September 30, 2016 (File No. 001-34057), filed November 7, 2016.

*3.2 AGNC Investment Corp. Third Amended and Restated Bylaws, as amended, incorporated herein by reference to Exhibit 3.2 of Form 10-Q for the quarter ended September 30, 2016 (File No. 001-34057), filed November 7, 2016.

*3.3 Certificate of Designations of 8.000% Series A Cumulative Redeemable Preferred Stock, incorporated herein by reference to Exhibit 3.1 of Form 8-K (File No 001-34057), filed April 3, 2012.

*3.4 Certificate of Designations of 7.750% Series B Cumulative Redeemable Preferred Stock, incorporated herein by reference to Exhibit 3.3 of Form 8-A (File No. 001-34057), filed May 7, 2014.

*4.1 Instruments defining the rights of holders of securities: See Article IV of our Amended and Restated Certificate of Incorporation, as amended, incorporated herein by reference to Exhibit 3.1 of Form 10-Q for the quarter ended September 30, 2016 (File No. 001-34057) filed November 7, 2016.

*4.2 Instruments defining the rights of holders of securities: See Article VI of our Third Amended and Restated Bylaws, as amended, incorporated herein by reference to Exhibit 3.2 of Form 10-Q for the quarter ended September 30, 2016 (File No. 001-34057) filed November 7, 2016.

*4.3 Form of Certificate for Common Stock, incorporated herein by reference to Exhibit 4.3 of Form 10-Q for the quarter ended September 30, 2016 (File No. 001-34057), filed November 7, 2016.

*4.4 Specimen 8.000% Series A Cumulative Redeemable Preferred Stock Certificate, incorporated herein by reference to Exhibit 4.1 of Form 8-K (File No. 001-34057), filed April 3, 2012.

*4.5 Specimen 7.750% Series B Cumulative Redeemable Preferred Stock Certificate, incorporated herein by reference to Exhibit 4.1 of Form 8-A (File No. 001-34057), filed May 7, 2014.

*4.6

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Deposit Agreement, dated May 8, 2014, among American Capital Agency Corp., Computershare Inc. and Computershare Trust Company, N.A., jointly as depository, incorporated herein by reference to Exhibit 4.2 of Form 8-K (File No. 001-34067), filed May 8, 2014.

*4.7 Form of Depositary Receipt, incorporated herein by reference to Exhibit 4.3 of Form 8-K (File No. 001-34067), filed May 8, 2014.

†*10.2016, by and between AGNC Mortgage Management, LLC and Gary Kain, incorporated herein by reference to Exhibit 10.1 of Form 8-K (File No. 001-34057), filed November 4, 2016.

†*10.2016, by and between AGNC Mortgage Management, LLC and Peter J. Federico, incorporated herein by reference to Exhibit 10.2 of Form 8-K (File No. 001-34057), filed November 4, 2016.

†*10.2016, by and between AGNC Mortgage Management, LLC and Christopher J. Kuehl, incorporated herein by reference to Exhibit 10.3 of Form 8-K (File No. 001-34057), filed November 4, 2016.

- †*10.4 Letter Agreement, dated December 1, 2015, as amended on July 1, 2016, by and between American Capital Mortgage Management, LLC and Bernice E. Bell, incorporated herein by reference to Exhibit 10.4 of Form 8-K (File No. 001-34057), filed July 8, 2016.
- †*10.5 Retention Bonus Grant Letter, dated July 1, 2016, by and between American Capital Mortgage Management, LLC and Bernice E. Bell, incorporated herein by reference to Exhibit 10.5 of Form 8-K (File No. 001-34057), filed July 8, 2016.
- †*10.6 Transition Services Agreement, dated July 1, 2016, by and among American Capital Agency Corp., American Capital, Ltd., American Capital Asset Management, LLC and American Capital Mortgage Management, LLC, incorporated herein by reference to Exhibit 2.1 of Form 8-K (File No. 001-34057), filed July 8, 2016.
- †10.7 AGNC Investment Corp. 2016 Equity and Incentive Compensation Plan, as adopted at a Special Meeting of Stockholders held on December 9, 2016, filed herewith.
- †10.8 Form of AGNC Investment Corp. 2016 Equity and Incentive Compensation Plan Restricted Stock Unit Agreement for Section 16 Officers with Employment Contracts, filed herewith.
- †10.9 Form of AGNC Investment Corp. 2016 Equity and Incentive Compensation Plan Performance-Based Restricted Stock Unit Agreement for Section 16 Officers with Employment Contracts, filed herewith.
- †10.10 Form of AGNC Investment Corp. 2016 Equity and Incentive Compensation Plan Restricted Stock Unit Agreement for Section 16 officers without Employment Contracts, filed herewith.
- †10.11 Form of AGNC Investment Corp. 2016 Equity and Incentive Compensation Plan Performance-Based Restricted Stock Unit Agreement for Section 16 officers without Employment Contracts, filed herewith.
- †*10.12 AGNC Mortgage Management, LLC Performance Incentive Plan - MTGE, incorporated herein by reference to Exhibit 10.1 of Form 8-K (File No. 001-34057), filed January 27, 2017.
- †10.13 Form of Memorandum and Acceptance Agreement for Incentive Awards under the AGNC Mortgage Management, LLC Performance Incentive Plan - MTGE for Section 16 Officers with Employment Contracts, filed herewith.
- †10.14 Form of Memorandum and Acceptance Agreement for Incentive Awards under the AGNC Mortgage Management, LLC Performance Incentive Plan - MTGE for Section 16 Officers without Employment Contracts, filed herewith.
- 12.1 Computation of ratio of earnings to fixed charges and ratio of earnings to combined fixed charges and preferred stock dividends, filed herewith.
- 14 AGNC Investment Corp. Code of Ethics and Conduct, adopted October 18, 2016, filed herewith.
- 21 Subsidiaries of the Company and jurisdiction of incorporation:
 1) AGNC TRS, LLC, a Delaware limited liability company
 2) Old Georgetown Insurance Co. LLC, a Missouri limited liability company
 3) Bethesda Securities, LLC, a Delaware limited liability company
 4) AGNC Mortgage Management, LLC, a Delaware limited liability company

- 23 Consent of Ernst & Young LLP, filed herewith.
- 24 Powers of Attorneys of directors and officers, filed herewith.
- 31.1 Certification of CEO Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of CFO Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
- 32 Certification of CEO and CFO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS** 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 Regulation S-K

Management contract or compensatory plan or arrangement

(b) Exhibits

See the exhibits filed herewith.

(c) 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 KAIN
 Gary Kain
 Chief Executive Officer, President and
 Chief Investment Officer (Principal Executive Officer)

Date: February 27, 2017

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

Name	Title	Date
/s/ GARY KAIN Gary Kain	Chief Executive Officer, President and Chief Investment Officer (Principal Executive Officer)	February 27, 2017
/s/ PETER FEDERICO Peter Federico	Chief Financial Officer and Executive Vice President (Principal Financial Officer)	February 27, 2017
/s/ BERNICE E. BELL Bernice E. Bell	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 27, 2017
* Morris A. Davis	Director	February 27, 2017
* Larry K. Harvey	Director	February 27, 2017
* Prue B. Larocca	Director	February 27, 2017
* Paul E. Mullings	Director	February 27, 2017
*By: /s/ KENNETH L. POLLACK Kenneth L. Pollack Attorney-in-fact		

