

AGNC Investment Corp.
Form 10-K
February 22, 2019

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, 2018

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

Commission file number 001-34057

AGNC INVESTMENT CORP.

(Exact name of registrant as specified in its charter)

Delaware 26-1701984
(State or Other Jurisdiction of (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)

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	The Nasdaq Global Select Market
7.750% Series B Cumulative Redeemable Preferred Stock	The Nasdaq Global Select Market
7.00% Series C Fixed-to-Floating Rate 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller Reporting Company

Emerging growth company

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

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

As of June 30, 2018, the aggregate market value of the Registrant's common stock held by non-affiliates of the Registrant was approximately \$6.8 billion based upon the closing price of the Registrant's common stock of \$18.59 per share as reported on The Nasdaq Global Select Market on that date. (For this computation, the Registrant has excluded the market value of all shares of its common stock reported as beneficially owned by executive officers and directors of the Registrant and certain other stockholders; such an exclusion shall not be deemed to constitute an admission that any such person is an "affiliate" of the Registrant.)

The number of shares of the issuer's common stock, \$0.01 par value, outstanding as of January 31, 2019 was 536,339,092.

DOCUMENTS INCORPORATED BY REFERENCE. The Registrant's definitive proxy statement for the 2019 Annual Meeting of Stockholders is incorporated by reference into certain sections of Part III herein.

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

AGNC INVESTMENT CORP.
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PART I

Item 1. Business

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

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

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

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

Investment Strategy

Our investment strategy is designed to:

- generate attractive risk-adjusted returns for our stockholders through monthly dividend distributions and tangible net book value accretion;
- manage an investment portfolio consisting primarily of Agency securities;
- invest a subset of the portfolio in 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. Our primary investments consist of Agency pass-through certificates representing interests in "pools" of mortgage loans secured by residential real property. Monthly payments of principal and interest made by the individual borrowers on the mortgage loans underlying the pools are in effect "passed through" to the security holders, after deducting GSE or U.S. Government agency guarantee and servicer fees. In general, mortgage pass-through certificates distribute cash flows from the underlying collateral on a pro rata basis among the security holders. Security holders also receive guarantor advances of principal and interest for delinquent loans in the mortgage pools. We also invest in Agency collateralized mortgage obligations ("CMOs"), which are structured instruments representing interests in Agency residential pass-through certificates, and interest-only, inverse interest-only and principal-only securities, which represent the right to receive a specified proportion of the contractual interest or principal flows of specific Agency CMO securities.

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

delivered only identified shortly before the TBA settlement date.

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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. Unlike Agency RMBS, full repayment of the original principal balance of CRT securities is not guaranteed by a GSE or other third-party; rather, "credit risk transfer" is achieved by writing down the outstanding principal balance of the CRT security if credit losses on the related pool of loans exceed certain thresholds. The reduced amount that issuers are obligated to repay to the security holders offsets the issuer's credit losses on the related pool of loans.

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

Commercial Mortgage-Backed Securities ("CMBS"). CMBS are securities 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 book value within reasonable bands. As part of our investment strategy, we use leverage on our investment portfolio to increase potential returns to our stockholders. We invest in securities based on our assessment of the relative risk-return profile of the securities and our ability to effectively hedge a portion of the securities' exposure to market risks. The composition of our portfolio and strategies that we use will vary based on our view of prevailing market conditions and the availability of suitable investment, hedging and funding opportunities. We may experience investment gains or losses when we sell securities that we believe no longer provide attractive risk-adjusted returns or when we believe more attractive alternatives exist elsewhere in the mortgage or mortgage-related securities market. We may also experience gains or losses from our hedging strategies or due to credit losses on non-Agency securities.

Financing Strategy

The primary source of financing for our investments is through repurchase agreements. A repurchase (or "repo") agreement transaction acts as a financing arrangement under which we effectively pledge our investment securities as collateral to secure a loan. Our borrowings through repurchase transactions are generally short term and have maturities ranging from one day to one year but may have maturities up to five or more years. Our financing rates typically track one or three-month London Interbank Offered Rate ("LIBOR"), plus or minus a fixed spread. Our leverage depends on market conditions, our assessment of risk and returns and our ability to borrow funds sufficient to fund the acquisition of mortgage securities. We generally expect our leverage to be within six to twelve times the amount of our tangible stockholders' equity. However, under certain market conditions, we may operate at leverage levels outside of this range for extended periods of time.

We diversify our funding exposure by entering into repurchase agreements with multiple counterparties. We had master repurchase agreements with over 40 financial institutions as of December 31, 2018. The terms of our master

repurchase agreements generally conform to the terms in the standard master repurchase agreement as published by the Securities Industry and Financial Markets Association ("SIFMA") as to repayment, margin requirements and the segregation of all securities sold under the repurchase transaction. In addition, each lender may require that we include supplemental terms and conditions to the standard master repurchase agreement to address such matters as additional margin maintenance requirements, cross default and other provisions.

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The specific provisions may differ for each lender and certain terms may not be determined until we engage in individual repurchase transactions.

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

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

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 are based on our assessment of these risks, the cost of hedging transactions and our intention to qualify as a REIT. Our hedging strategies are generally not designed to protect our net book value from "spread risk," which 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 book 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 interest rate risk with respect to both the fixed income nature of our long-term assets and the short-term, variable rate nature of our financing. A majority of our funding is in the form of repurchase agreements, and, as a result, our financing costs fluctuate based on short-term interest rate indices, such as the U.S. federal funds rate and LIBOR. Our investments are assets that primarily have fixed rates of interest with maturities up to 30 years, and the interest we earn on those assets generally does not move in tandem with the interest that we pay on our repurchase agreements. As such, we may experience reduced income or losses due to adverse interest rate movements. To mitigate a portion of such risk, we utilize hedging techniques to attempt to lock in a portion of the net interest spread between the interest we earn on our assets and the interest we pay on our financing costs. We also use certain hedges, such as short U.S. Treasury securities and U.S. Treasury futures positions, to hedge a portion of the price risk associated with our largely fixed-rate asset portfolio due to changes in interest rates. Prepayments on residential mortgages generally accelerate when interest rates decrease and slow when interest rates rise, and, as a result, mortgage securities may increase in price more slowly than similar duration bonds, or even fall in value, as interest rates decline. Mortgage securities could also decrease in value more quickly than similar duration bonds as interest rates rise. This is referred to as "negative convexity." To manage our convexity exposure, we monitor the interest rate sensitivity of our assets relative to the interest rate sensitivity of our liabilities and interest rate hedge portfolio, referred to as our "duration gap," and we monitor how our convexity and duration gap change if interest rates and prepayment expectations were to increase or decrease.

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 future interest rate volatility. 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 attempt to

mitigate these risks using interest rate hedges and through asset selection.

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

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Extension Risk. Because residential borrowers have the option to make only scheduled payments on their mortgage loans, we face the risk that a return of capital on our investment will occur slower than anticipated. Extension risk generally increases when interest rates rise and our financial results could be adversely affected as we may have to finance our investments at potentially higher costs without the ability to simultaneously reinvest principal repayments into higher yielding securities due to a lack of or slower than anticipated borrower prepayments.

Spread Risk. Because the market spread between the yield on our investments and the yield on benchmark interest rates, such as U.S. Treasury rates and interest rate swap rates, may vary, we are exposed to spread risk. The inherent spread risk associated with our investments 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 U.S. 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 book value from spread risk.

Credit Risk. We accept mortgage credit exposure related to our CRT and other non-Agency securities at levels we deem to be prudent within the context of our overall investment strategy. We attempt to manage this risk through prudent asset selection, pre-acquisition due diligence, post-acquisition performance monitoring, and sale of assets where we identify negative credit trends. We may also manage credit risk with credit default swaps or other financial derivatives that we believe are appropriate. Additionally, we may attempt to adjust our credit exposure and/or to improve the return profile of our investment portfolio by varying the mix of our Agency and non-Agency mortgage investments and adjusting our duration gap, when we believe credit performance is inversely correlated with changes in interest rates.

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

Income from hedging transactions that we enter to manage risk may not constitute qualifying gross income under one or both gross income tests applicable to REITs (see Real Estate Investment Trust Requirements below). 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 2016, we were externally managed by AGNC Management, LLC (our "Manager"). In July 2016, we completed the acquisition of all the outstanding membership interests of AGNC Mortgage Management, LLC ("AMM"), the parent company of our Manager, from American Capital Asset Management, LLC ("ACAM"), a wholly owned portfolio company of American Capital, Ltd. AMM is also the parent company of MTGE Management, LLC, which was the external manager of MTGE Investment Corp. ("MTGE") (Nasdaq: MTGE) until the sale of MTGE to a third party in September 2018.

Prior to our acquisition of AMM and our resulting management internalization, we paid our Manager a management fee equal to 1.25% of our stockholders' equity, as defined in our management agreement, and we were obligated to reimburse our Manager for its expenses incurred directly related to our operations, excluding employment-related expenses.

Employees

As of December 31, 2018, we had 56 full-time employees.

Exemption from Regulation under the Investment Company Act

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

Real Estate Investment Trust Requirements

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

Income Tests

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

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

2. At least 95% of our gross income in each taxable year generally must be derived from some combination of income that qualifies under the 75% gross income test described above, as well as other dividends, interest, and gains from the sale or disposition of stock or securities, which need not have any relation to real property. Interest income from obligations secured by mortgages on real property (such as Agency and non-Agency MBS) generally constitutes qualifying income for purposes of the 75% gross income test described above. Interest income from CRT securities may be treated as either qualifying or non-qualifying income for the 75% and 95% gross income tests depending on the tax structure of the CRT. There is no direct authority with respect to the qualification of income or gains from TBAs for the 75% gross income test; however, we treat these as qualifying income for this purpose based on an opinion of legal counsel. Income and gains from instruments that we use to hedge the interest rate risk associated with our borrowings incurred, or to be incurred, to acquire real estate assets will generally be excluded from both gross income tests, provided that specified requirements are met.

Asset Tests

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

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

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

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

4. The aggregate value of all securities of all TRSs that we hold may not exceed 20% of the value of our total assets.

5. No more than 25% of the total value of our assets may be represented by certain non-mortgage debt instruments issued by publicly offered REITs (even though such debt instruments qualify under the 75% asset test).

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

Corporate Information

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

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

Competition

Our success depends, in large part, on our ability to acquire assets at favorable spreads over our borrowing costs. In acquiring mortgage assets, we compete with mortgage REITs, mortgage finance and specialty finance companies, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, other lenders, governmental bodies and other entities. These entities and others that may be organized in the future may have similar asset acquisition objectives and increase competition for the available supply of mortgage assets suitable for purchase. Additionally, our investment strategy is dependent on the amount of financing available to us in the repurchase agreement market, which may also be impacted by the overall supply of repo funding and 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 deciding to purchase our securities. If any of the following risks were to occur, our business, financial condition or results of operations could be materially adversely affected. If that happens, the trading price of our securities could decline, and you may lose all or part of your investment. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us, or not presently deemed material by us, may also impair our operations and performance.

Risks Related to Our Investing, Portfolio Management and Financing Activities

An increase in our borrowing costs would adversely affect our financial condition and results of operations. We rely primarily on short-term and/or variable rate borrowings to acquire fixed-rate securities with long-term maturities. Due to the short-term or adjustable rate nature of our financing, our borrowing costs are particularly sensitive to increases in short-term interest rates, as well as overall funding availability, market liquidity, fluctuations in asset values and "haircut" levels applied to assets pledged under repurchase agreements and other factors. The relationship between short and longer-term interest rates is often referred to as the "yield curve." Ordinarily, short-term interest rates are lower than longer-term interest rates, but a flattening of the yield curve can occur if short-term interest rates rise disproportionately relative to longer-term interest rates. It is also possible that the yield curve could invert, with short-term rates exceeding longer-term rates. If either of these conditions occur, our borrowing costs could increase more rapidly than the interest income earned on our fixed rate assets and our net interest margin would decline, or in extreme scenarios even turn negative. In this event, we could incur operating losses, and our financial condition and ability to make distributions to our stockholders could be adversely affected. Changes to the pace of the Fed's purchases or sales of Agency mortgage-backed securities may adversely affect the price and return associated with Agency securities.

In October 2017, the Fed began to taper its reinvestments of principal payments from its U.S. Treasury, Agency debt and Agency RMBS portfolios acquired as a function of its quantitative easing programs. The Fed could vary the pace of its tapering activity or could stop tapering altogether. We cannot predict the impact that these or future actions will 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 Fed increases the pace of its tapering and further reduces or ceases reinvestment of principal or undertakes outright sales of its securities portfolio, the price of Agency RMBS and U.S. Treasury securities could decline, mortgage spreads could widen, refinancing volumes could be lower and market volatility could be considerably higher than would have been the case absent such actions. Similarly, if the Fed reduces the pace of tapering, stops tapering altogether or undertakes outright purchases of securities, interest rates could decline and our investments could prepay at a faster rate than anticipated. Consequently, our results of operations and financial condition could be adversely affected by the Fed altering its tapering activity.

We may change our targeted investments, investment guidelines and other operational policies without stockholder consent, which may adversely affect the market price of our common stock and our ability to make distributions to stockholders.

We may change our targeted investments and investment guidelines at any time without the consent of our stockholders, which could result in our making investments that are different from, and possibly riskier than, the investments described herein.

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

Our active portfolio management strategy may expose us to significant realized gains or losses.

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

Our 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 the risks and returns on our investments. We incur leverage by borrowing against a substantial portion of the market value of our assets. While leverage is fundamental to our investment strategy, it also creates significant risks. For example, we may incur substantial losses if our borrowing costs increase or if the value of our investments declines.

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

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

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

Additionally, our wholly-owned captive broker-dealer subsidiary's ability to access bilateral and triparty repo funding, including through the FICC's GCF Repo service, requires that it continually meet regulatory and membership requirements established by FINRA and the FICC, which could change over time, potentially resulting in BES to lose access to these funding sources, which represents a significant portion of our total borrowing capacity.

If we are unable to renew or replace maturing borrowings, we may have to sell 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, we cannot make any assurance that financing will be available to us in the future on terms that are acceptable to us. If we cannot obtain sufficient funding on acceptable terms, our investment returns, financial condition and results of operations would be adversely affected and there may be a negative impact on the value of our common and preferred stock and our ability to make distributions to our stockholders.

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

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

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

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

We employ techniques that are intended to limit, or "hedge," the adverse effect of changes in interest rates on the value of our assets and financing costs, subject to complying with REIT tax requirements. Hedging strategies are complex and there are no perfect hedges. Our business model also calls for accepting certain amounts of risk.

Consequently, our hedging activities are generally designed to limit our interest rate exposure, but not to eliminate it, and they are generally not designed to hedge against spread risk and other risks inherent to our business model.

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

- the cost of interest rate hedges can be expensive, particularly during periods of rising and volatile interest rates due to higher costs demanded by counterparties and additional charges that may be incurred to adjust our hedges in such circumstances;

- available interest rate hedges may not correspond directly with the interest rate risk for which protection is sought such that the reference rates could reset at a different time or times from the shorter-term rates intended to be limited;

- 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 in the hedging transaction owing money to us may default on its obligation to pay;

- the credit quality of the party owing money to us 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.

Furthermore, our hedging activities involve costs that we incur regardless of the effectiveness of the hedging activity or whether we receive any corresponding economic benefit. For these reasons, our hedging strategies may fail to protect us from loss and could even result in greater losses than if we had not entered in the hedge transaction, which would negatively impact our operating results and financial condition.

The transition from LIBOR to an alternative reference rate could negatively impact our funding costs and the dividend rate we could pay on our 7% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock ("Series C Preferred Stock")

In July 2017, the United Kingdom Financial Conduct Authority announced its intent to phase out the use of LIBOR by the end of 2021, citing a number of banks' reluctance to participate in setting LIBOR rates and an insufficient number of interbank lending transactions from which LIBOR may be set. There is currently no definitive information regarding the future utilization of LIBOR, or of any particular replacement rate. The Fed, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, has proposed the Secured Overnight Financing Rate, or SOFR, a new index calculated from short-term repurchase agreements, backed by U.S. Treasury securities, as a potential replacement for U.S. dollar LIBOR. Our interest rate

swaps and certain of our repo agreements have interest rates linked to U.S. LIBOR, and our Series C Preferred Stock has a dividend rate linked to U.S. LIBOR. It is unknown whether SOFR or any potential alternative reference rate will attain market acceptance as replacements for LIBOR and, as such, the potential effect on our results from operations is unknown.

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

When the spread between the market yield on our mortgage assets and benchmark interest rates widens, our net book value could decline. We refer to this as "spread risk" or "basis risk," and we generally do not seek to hedge this risk. The spread risk associated with our mortgage assets and the resulting fluctuations in fair value of these securities is a risk inherent to our business and can occur independent of changes in benchmark interest rates. Spread risk may relate to other factors impacting the mortgage and fixed income markets, such as actual or anticipated monetary policy actions by the Fed, market liquidity, or changes in required rates of return on different assets. Consequently, while we use interest rate swaps and other hedges to attempt to protect against moves in interest rates, such instruments typically will not protect our net book value against spread risk. If 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, or similarly if the value of our assets increases by less than the offsetting fair value declines on our hedging instruments, our financial condition and results of operations could be materially adversely affected.

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 which receive payments related to the underlying mortgage loans. When borrowers prepay their mortgage loans at rates faster or slower than expected, it results in faster or slower prepayment of our assets. We are exposed to prepayment or extension risk in the event prepayments occur at a faster or slower rate than we anticipated. Generally, prepayments increase during periods of falling mortgage interest rates and decrease during periods of rising mortgage interest rates. However, this may not always be the case as other factors can affect the rate of prepayments, including loan age and size, loan-to-value ratios, housing price trends, general economic conditions and other factors.

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

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

Prepayment rates are difficult to predict. Prepayments 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 purchase mortgages that are 120 days or more delinquent from RMBS 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 can be affected by conditions in the housing and financial markets that impact delinquencies on mortgage loans, GSE's cost of capital and their decisions as to when to repurchase delinquent loans, general economic conditions and the relative interest rates on fixed and adjustable rate loans, which could impact refinancing rates. In addition, the introduction of U.S. Government programs, or changes to existing programs, could increase the availability of mortgage credit to homeowners, which could impact prepayment rates, particularly for Fannie Mae and Freddie Mac Agency RMBS.

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

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 between changing interest rates and the rate of prepayments. Changes in interest rates and prepayments affect the market price of mortgage assets. As part of our overall portfolio risk management, we analyze interest rate changes and prepayment trends separately and collectively to assess their effects on our investment portfolio. To a large extent our analysis is based on models that are dependent on a number of assumptions and inputs. Many of the assumptions we use are based upon historical trends with respect to the relationship between interest rates and prepayments under normal market conditions. There is risk that our assumptions are incorrect. Dislocations in the residential

mortgage market and other developments may disrupt the relationship between the way that prepayment trends have historically responded to interest rate changes and, consequently, may negatively impact our ability to (i) assess the market value of our investment portfolio, (ii) implement hedging strategies and (iii) implement techniques to reduce our prepayment rate volatility, which could materially adversely affect our financial condition and results of operations.

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

On December 22, 2017, the President signed the Tax Cuts and Jobs Act ("TCJA"), which provides for substantial changes to the taxation of individuals and business entities, generally with an effective date of January 1, 2018. For individual taxpayers, the changes included, among others, lower ordinary income tax rates, higher standard deductions, and suspension or modification of several itemized deductions. The changes to the categories of itemized deductions include a limit on deductions of state and local income and property taxes of \$10,000 and a modification to the amount of residential mortgage interest that is deductible. The new rule limits the deduction available for mortgage interest by reducing the amount of debt that can qualify from \$1 million to \$750,000, however mortgage debt borrowed prior to December 15, 2017 is not affected by the reduction. In addition, home equity mortgage interest is no longer deductible. Many of the changes affecting individual taxpayers will cease to apply after December 31, 2025 and will revert to their pre-2018 form absent future legislation required to make the provisions effective beyond 2025. Because of these changes, it is expected that the number of individual taxpayers that itemize deductions will decrease significantly causing the income tax benefits of residential home ownership to decline materially. These factors could reduce the demand for home ownership, result in a decline in the pricing of residential real estate as well as alter the prepayment patterns of residential mortgages, all of which could have a significant impact on the pricing and returns of RMBS.

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

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

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

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

Commercial mortgage loans underlying CMBS are generally secured by multifamily or other commercial property and are subject to risks of delinquency and foreclosure, and risks of loss that are greater than similar risks associated with loans made on the security of residential property. The ability of a borrower to repay a loan secured by an

income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of an income producing property can be affected by, 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.

Our assets are also not subject to any geographic, diversification or concentration limitations. Accordingly, our investments in CRT and non-Agency securities could be concentrated by geography, asset, property type and/or borrower. Such concentrations could subject us to a greater risk of loss due to adverse developments. For example, adverse conditions in the areas where the properties securing or otherwise referenced to our investments are located (such as business layoffs or downsizing, industry slowdowns, changing demographics and other factors) and local real estate conditions (such as oversupply or reduced demand) could in an adverse way disproportionately affect the value of our investments and our ability to recover interest and principal on our investments.

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

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

Any credit ratings assigned to our credit risk-oriented investments will be subject to ongoing evaluations and revisions and we cannot assure you that those ratings will not be downgraded.

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

Changes in credit spreads may adversely affect our profitability.

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

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

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

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 multiple financial institutions. We borrow under these 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, where the lender requires us to pledge additional collateral. The specific collateral value to borrowing ratio that would trigger a margin call is not set in the master repurchase agreements and is not determined until we engage in a repurchase transaction under these agreements. Our fixed-rate collateral generally may be more susceptible to margin calls as increases in interest rates tend to affect more negatively the market

value of fixed-rate securities. In addition, some collateral may be less liquid than other instruments, which could cause 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 time lag between when the prepayment is reported (which reduces the market value of the security) and when the principal payment is received. If we are unable to satisfy margin calls, our lenders may foreclose on our collateral. The threat of or occurrence of a margin call could force us to sell, either directly or through a foreclosure, our collateral under adverse market conditions, which could result in substantial losses.

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 to our counterparties. Our counterparties, or the central clearing agency, typically have the sole discretion to determine the value of the derivative instruments and the value of the collateral securing such instruments. In the event of a margin call, we must generally provide additional collateral on the same business day. Furthermore, our derivative agreements may also contain cross default provisions under which a default under certain of our other indebtedness above a certain threshold amount would cause an event of default under the derivative agreement. Following an event of default, we could be required to settle our obligations under the agreements at their termination values. The threat of or occurrence of margin calls or the forced settlement of our obligations under our derivative agreements at their termination values could force us to sell our investments under adverse market conditions, which could result in substantial losses.

Regulations adopted by the U.S. Commodity Futures Trading Commission ("CFTC") and regulators of other countries could impose increased margin requirements and require additional operational and compliance costs, which could negatively affect our financial condition and results of operations.

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

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

Defaults by our repurchase agreement counterparties 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, or defaults by us on our obligations under the transaction could cause us to lose money on repurchase transactions.

When we engage in a repurchase transaction, we initially transfer securities 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. The cash we receive when we initially sell the collateral is less than the value of that collateral and this difference is referred to as the "haircut." As a result, we borrow a smaller amount than the collateral we initially sell in these transactions and increases in "haircuts" may require us to post additional collateral. The haircut rates under our master repurchase agreements are not set until we engage in a specific repurchase transaction. If a counterparty defaults on an obligation to resell collateral to us, we could incur a loss on the transaction equal to the amount of the haircut (assuming there was no change in the value of the securities), which could adversely affect our earnings, and, thus, our cash available for distribution to our stockholders.

To limit our counterparty exposure, we diversify our funding across multiple counterparties and by counterparty region. We may access a significant portion of our funding through BES, which has direct access to the General Collateral Finance Repo service offered by the FICC. We could be exposed to risk of loss if the FICC or an FICC netting member defaults on its obligations. We believe that this risk is minimal due to the FICC's initial and daily mark-to-market margin requirements, guarantee funds and other resources that are available in the event of a default, but there is no guarantee that we would not incur a loss if such an event of default were to occur.

If we default on one of our obligations under a repurchase transaction, the counterparty could terminate the transaction and cease entering into other repurchase transactions with us. In that case, we would likely need to establish a replacement repurchase facility with another financial institution 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 should the fair value of our collateral decline. As a result, we may not be able to leverage our assets as fully as we would otherwise choose, which could reduce our return on equity. If we are unable to meet these collateral obligations, our financial condition could deteriorate rapidly, and our counterparties could choose to cease entering into further repurchase transactions with us.

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

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

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

Certain hedging instruments, such as interest rate swaptions, are not traded on regulated exchanges or guaranteed by an exchange or its clearinghouse and, consequently, there may not be the same level of protections with respect to margin requirements, record keeping, segregation of customer funds and positions and other requirements designed to protect both us and our counterparties. Furthermore, the enforceability of agreements underlying hedging transactions may depend on compliance with applicable statutory, 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.

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

We measure the fair value of our investments in accordance with guidance set forth in Accounting Standards Codification Topic 820, Fair Value Measurements and Disclosures. Fair value is only an estimate based on good faith judgment of the price at which an investment can be sold since market prices of investments can only be determined by negotiation between a willing buyer and seller. Our determination of the fair value of our investments includes inputs provided by third-party dealers and pricing services. Valuations of certain investments in which we invest may be difficult to obtain or unreliable. In general, dealers and pricing services heavily disclaim their valuations and we do not have recourse against them due to liabilities and other damages arising from inaccurate price quotes or other inputs used to determine the fair value of our investments. Depending on the complexity and illiquidity of a security, valuations of the same security can vary substantially from one dealer or pricing service to another. Moreover, fair value and estimates of fair value may fluctuate over short periods of time. For these reasons, the fair value at which

our investments are recorded may not be an indication of their realizable value. Furthermore, the ultimate realization of the value of an asset depends on economic and other conditions that are beyond our control. Consequently, if we were to liquidate an asset, particularly in a forced liquidation, the realized value may be less than the amount at which the asset is recorded, which would negatively affect our results of operations and financial condition.

Investments in the common stock of other publicly traded mortgage REITs expose us to incremental risks and costs. We may invest in other mortgage REITs that primarily invest in Agency securities, non-Agency securities, other mortgage related instruments and/or real estate 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 our Agency RMBS are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. The guarantees on Agency securities created by Ginnie Mae are backed by the full faith and credit of the U.S. Government, whereas the guarantees on Agency securities created by Fannie Mae and Freddie Mac are not. The future roles of Fannie Mae and Freddie Mac could be significantly modified, 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. If the guarantee obligations of Freddie Mac or Fannie Mae were repudiated by FHFA, payments of principal and/or interest to holders of Agency RMBS issued by Freddie Mac or Fannie Mae would be reduced in the event of any borrower delinquencies or a servicer's failure to remit borrower payments to the trust and trust administration and servicing fees could be paid from mortgage payments prior to distributions to holders of Agency RMBS. Any actual direct compensatory damages owed due to the repudiation of Freddie Mac or Fannie Mae's guarantee obligations may not be sufficient to offset any shortfalls experienced by holders of Agency RMBS.

As a result, such laws or changes could increase the risk of loss on our investments in Agency mortgage investments guaranteed by Fannie Mae 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.

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

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

We rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could disrupt our business and result in the loss of confidential information.

We rely on information technology networks and systems to process, transmit and store electronic information, and to manage or support a variety of business processes. We purchase some of our information technology from third-party vendors and rely on commercially available systems, software, tools and monitoring to provide security for the processing, transmission and storage of confidential data. While we select third-party vendors carefully, we do not control their actions. Any problems caused by these third parties, including those resulting from breakdowns or other disruptions in communication services, failure to handle current or higher volumes, cyber-attacks and other security breaches could adversely affect our ability to conduct our business.

While we employ measures to protect the security of our information systems and data, it is possible that these measures will not prevent the systems' improper functioning or damage, or the improper access or disclosure of information in the event of cyber-attacks. In some cases, it may be difficult to anticipate or immediately detect a security breach and the damage caused. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could have a materially adverse effect on our business, financial condition and results of operations.

Risks Related to Our Taxation as a REIT

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

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

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

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

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

The present U.S. federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect 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.

The TCJA enacted in December 2017 makes substantial changes to the Internal Revenue Code. Among those changes are a significant permanent reduction in the generally applicable corporate tax rate, a temporary reduction in the highest marginal income tax rate applicable to individuals subject to a "sunset" provision, the elimination or modification of various currently allowed deductions (including substantial limitations on the deductibility of interest), certain additional limitations on the deduction of net operating losses, and preferential rates of taxation on most ordinary REIT dividends and certain business income derived by non-corporate taxpayers in comparison to other ordinary income recognized by such taxpayers. The effect of these, and the many other, changes made in the TCJA is highly uncertain, both in terms of their direct effect on the taxation of an investment in our common stock and their

indirect effect on the value of our assets or shares of our common stock or market conditions generally. Furthermore, many of the provisions of the TCJA will require guidance through the issuance of Treasury regulations in order to assess their effect. There may be a substantial delay before such regulations are promulgated, increasing the uncertainty as to the ultimate effect of the statutory amendments on us. There may also be technical corrections legislation proposed with respect to the TCJA, the effect and timing of which cannot be predicted, and which may be adverse to us or our stockholders.

Revisions in Federal tax laws and interpretations thereof could affect or cause us to change our investments and affect the tax considerations of an investment in us.

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

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

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

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

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

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

determine to sell shares of our common stock to pay taxes owed on dividends, it may put downward pressure on the trading price of our common stock.

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

Even if we remain qualified for taxation as a REIT, we may nonetheless be subject to certain Federal, state and local taxes on our income and assets, including, 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.

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

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

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

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

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

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

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

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

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

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

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

To remain qualified as a REIT, we must comply with requirements regarding the composition of our assets and our sources of income. If we are compelled to liquidate our investments to repay obligations to our lenders, we may be

unable to comply with these requirements, ultimately jeopardizing our qualification as a REIT, or we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as dealer property or inventory.

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

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

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

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

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

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

We intend to conduct our operations so that no asset that we own (or are treated as owning) at the REIT level will be treated as, or as having been, held for sale to customers, and that a sale of any such asset will not be treated as having been in the ordinary course of our business. As a result, we may choose not to engage in certain transactions at the REIT level that might otherwise be beneficial to us. In addition, whether property is held "primarily for sale to customers in the ordinary course of a trade or business" depends on the particular facts and circumstances. No assurance can be given that any property that we sell will not be treated as property held for sale to customers, or that

we can comply with certain safe-harbor provisions of the Internal Revenue Code that would prevent such treatment. The 100% tax does not apply to gains from the sale of property that is held through a TRS or other taxable corporation, although such income will be subject to tax in the hands of the corporation at regular corporate rates. We intend to structure our activities to avoid prohibited transaction characterization.

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

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

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

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

Risks Related to Our Business Structure

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

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

The specific real estate related assets that we acquire are limited by the provisions of the Investment Company Act and the rules and regulations promulgated thereunder. In satisfying the 55% requirement, we treat Agency RMBS issued with respect to an underlying pool of mortgage loans in which we directly or indirectly hold all the certificates issued by the pool ("whole pool" securities) as qualifying real estate interests based on pronouncements of the SEC staff. We treat partial pool securities, CRT and other mortgage related securities as real estate-related assets. 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. Importantly, if we fail to qualify for this exemption, our ability to use leverage would be substantially reduced and we would be unable to conduct our business as we currently conduct it, which could materially and adversely affect our business.

Risks Related to Our Common Stock

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

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

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

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

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

Future offerings of debt securities, which would rank senior to our common and preferred upon our liquidation, and future offerings of equity securities, which would dilute our existing stockholders 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 in an amount that all or substantially all our taxable income is distributed within the limits prescribed by the Internal Revenue Code. However, we have not established a minimum dividend payment level and the amount of our dividend may fluctuate. Our ability to pay dividends may be

adversely affected by the risk factors described herein. All distributions will be made at the discretion of our Board of Directors and will depend on our earnings and financial condition, the requirements for REIT qualification and such other factors as our Board of Directors deems relevant

from time to time. We may not be able to make distributions in the future or our Board of Directors may change our dividend policy. In addition, some of our distributions may include a return of capital. To the extent that we decide to pay dividends in excess of our current and accumulated tax earnings and profits, such distributions would generally be considered a return of capital for federal income tax purposes. A return of capital reduces the cost basis of a stockholder's investment in our common stock to the extent of such basis and is treated as capital gain thereafter. An increase in market interest rates may cause a material decrease in our net book value and the market price of our common stock.

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

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

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

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

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

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

As described above, our amended and restated certificate of incorporation generally prohibits beneficial or constructive ownership by any person of more than 9.8% (by value or by number of shares, whichever is more restrictive) of our common or capital stock, unless exempted by our Board of Directors. Our amended and restated certificate of incorporation's constructive ownership rules are complex and may cause the outstanding stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a

result, the acquisition of 9.8% or less of the outstanding stock by an individual or entity or group could result in constructive ownership greater than 9.8% and thus be subject to our amended and restated certificate of incorporation's ownership limit. Any attempt to own or transfer shares of our common or preferred stock more than the ownership limit without the consent of the Board of Directors will result in the shares being automatically transferred to a charitable trust or, if the transfer to a charitable trust would not be effective, such transfer being treated as invalid from the outset.

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

Item 3. Legal Proceedings

AGNC is named as a nominal defendant in three stockholder derivative lawsuits filed against the Company and certain of our current and former directors and officers. One case, H&N Management Group and AFF Cos. Frozen Money Purchase Plan v. Couch, et al., (the "Delaware Action") was filed in the Chancery Court of the State of Delaware on October 21, 2016, an amended complaint was filed on December 12, 2016, and further amended complaints were filed on October 11, 2018 and on November 14, 2018. The amended complaint in the Delaware Action alleges breach of fiduciary duty and corporate waste by certain of our current and former directors and officers relating to decisions not to terminate our management agreement with our former external Manager (the "Renewal Claims") and the internalization of our management through the acquisition of AMM, which was completed on July 1, 2016 ("Internalization Claims"). The amended complaint in the Delaware Action also names Ares Capital Corporation, Ivy Hill Asset Management, LLC and ACAS, LLC, (collectively, the "Ares Defendants") as defendants and alleges that they aided and abetted and were unjustly enriched by the supposed breaches of duty (the "Ares Claims"). A motion to dismiss the Delaware Action was denied on August 1, 2017, and the Delaware Action is currently in the discovery phase with respect to defendants other than the Ares Defendants. The Ares Defendants filed a motion to dismiss the claims against them on October 29, 2018. Oral argument on this motion occurred on February 21, 2019, but the Court has not yet rendered a decision.

The other two cases, Clem v. Kain, et al., and Wall v. Kain, et al., were filed in the U.S. District Court in the District of Maryland on September 21, 2016 and September 30, 2016, respectively, and were consolidated on October 25, 2016, under the name In re AGNC Investment Corp. (f/k/a American Capital Agency Corp.) Stockholder Derivative Litigation, (collectively, the "Maryland Action" and collectively, with the Delaware Action, the "Derivative Lawsuits"). An amended complaint in the Maryland Action was filed on December 23, 2016. The amended complaint in the Maryland Action alleged breach of fiduciary duties and aiding and abetting against the same individuals related to substantially the same events (i.e., Renewal Claims, Internalization Claims and Ares Claims). The Maryland Action also alleged violations of Section 14(a) of the Securities Exchange Act of 1934, as amended, due to purported omissions from our proxy statements in 2014, 2015 and 2016 (the "Proxy Claims"). On September 30, 2017, the defendants moved to dismiss the Maryland Action, and on July 3, 2018, the Court granted in part and denied in part our and other defendants' motions to dismiss. The Court dismissed the Proxy Claims, the Internalization Claims and the Ares Claims. However, the Court did not dismiss the Renewal Claims. On July 18, 2018, the plaintiffs in this action moved to amend their complaint in an effort to cure the deficiencies identified by the Court in its ruling on the motion to dismiss. On February 6, 2019, the Court denied in part and granted in part the plaintiffs' motion to amend their complaint. Specifically, the Court found that the Proxy Claims failed to properly state a claim and could not be brought, but the Court granted the plaintiffs leave to amend their complaint as to all other claims because the Court found the allegations sufficient to state claims against the defendants. Following this ruling, the plaintiffs filed a

further amended complaint on February 12, 2019, as to the Renewal Claims, the internalization Claims and the Ares Claims. Defendants' response to this amended complaint is due on February 26, 2019, unless such date is extended. The plaintiffs in the Derivative Lawsuits demand an unspecified amount of damages, pre-judgment and post-judgment interest, restitution from the individual defendants, attorneys' fees and other costs, and further relief as the Court deems just and proper. The plaintiffs in the Maryland Action also seek a directive that the Company and the individual defendants take certain actions with respect to our corporate governance and procedures. We believe the claims in the Derivative Lawsuits lack merit, and we expect that the defendants will vigorously defend these cases. 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

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, 2019, we had 1,161 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 2018 and 2017:

	Common Stock		
	Sales Prices		Dividends
	High	Low	Declared ¹
Fiscal Year 2018			
Fourth Quarter	\$ 18.76	\$ 16.96	\$ 0.54
Third Quarter	\$ 19.72	\$ 18.51	\$ 0.54
Second Quarter	\$ 19.26	\$ 18.46	\$ 0.54
First Quarter	\$ 20.26	\$ 17.84	\$ 0.54
Fiscal Year 2017			
Fourth Quarter	\$ 21.90	\$ 19.26	\$ 0.54
Third Quarter	\$ 21.94	\$ 20.76	\$ 0.54
Second Quarter	\$ 22.34	\$ 19.57	\$ 0.54
First Quarter	\$ 20.02	\$ 18.10	\$ 0.54

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

We intend to pay dividends monthly to our common stockholders and to continue to qualify for the tax benefits accorded to a REIT under the Internal Revenue Code. We have not established a minimum dividend payment level and our ability to pay dividends may be adversely affected for the reasons described under the caption "Risk Factors." Additionally, holders of depositary shares underlying our 7.750% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock") and our 7.00% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock ("Series C Preferred Stock") are entitled to receive cumulative cash dividends before holders of our common stock are entitled to receive any dividends. Holders of depositary shares underlying our Series B Preferred Stock are entitled to receive cumulative cash dividends at a rate of 7.750% per annum of their aggregate liquidation preference of \$175 million. Holders of depositary shares underlying our Series C Preferred Stock are entitled to receive cumulative cash dividends at a rate of 7.00% per annum up to, and including, October 14, 2022 and thereafter at a floating rate equal to three-month LIBOR plus a spread of 5.111% per annum of their aggregate liquidation preference of \$325 million. All distributions to stockholders will be made at the discretion of our Board of Directors and will depend on our earnings, financial condition, maintenance of our REIT status and other factors as our Board of Directors may deem relevant from time to time.

The following table summarizes the tax characterization of dividends declared on our common stock for fiscal years 2018 and 2017:

Dividends Declared Per Share of	Tax Characterization			
	Ordinary Income Per Share	Qualified Dividends	Long-Term Capital Gains Per Share	Non-Dividend Distributions ³ Section 199A Dividend ⁴

	Common Stock				
Fiscal Year 2018 ¹	\$ 2.16	\$1.127208	\$ —	—\$ 1.032792	\$1.127208
Fiscal Year 2017 ²	\$ 2.16	\$0.813744	\$ —	—\$ 1.346256	\$—

Includes dividends declared during the 12-month period ended November 30, 2018. The dividend of \$0.18 per 1. common share declared on December 11, 2018, which was paid on January 9, 2019, will be reported to stockholders as a fiscal year 2019 distribution for U.S. federal income tax purposes.

2. Includes dividends declared during the 11-month period ended November 30, 2017.

Also referred to as a "return of capital." Represents dividends paid in excess of our current and accumulated earnings and profit, or "E&P," which is a tax-based measure calculated by adjusting taxable income for items that 3. are treated differently for E&P purposes, such as utilization of net capital loss carryforwards. A return of capital reduces the basis of a stockholder's investment in our common stock to the extent of such basis and is treated as capital gain thereafter.

Twenty percent of Section 199A dividends may be deducted in computing a U.S. non-corporate investor's taxable income. The deduction is subject to certain limitations calculated based on an investor's taxable ordinary income.

For detailed rules regarding the section 199A deduction, stockholders should consult with their tax advisors.

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

Equity Compensation Plan Information

The following table summarizes information, as of December 31, 2018, concerning shares of our common stock authorized for issuance under our equity compensation plans, pursuant to which grants of equity-based awards, namely restricted stock units ("RSUs"), may be granted from time to time. See "Item 8. Financial Statements" for a description of our equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights ¹	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column of this table) ²
Equity compensation plans approved by security holders	2,010,668	\$	—7,940,875
Equity compensation plans not approved by security holders	—	—	—
Total	2,010,668	\$	—7,940,875

¹ Includes (i) unvested time and performance-based RSU awards (unvested performance-based awards assume the maximum payout under the terms of the award); (ii) outstanding previously vested awards, if distribution of such awards has been deferred beyond the vesting date; and (iii) accrued dividend equivalent units on items (i) and (ii) through December 31, 2018.

² Available shares are reduced by items (i), (ii) and (iii) noted above and by shares issued for vested awards, net of units withheld to cover minimum statutory tax withholding requirements paid by us in cash on behalf of the employee.

Performance Graph

The following graph and table compare a stockholder's cumulative total return, assuming \$100 invested at December 31, 2013, with the reinvestment of all dividends, as if such amounts had been invested in: (i) our common stock; (ii) the stocks included in the Standard & Poor's 500 Stock Index ("S&P 500"); (iii) the stocks included in the FTSE NAREIT Mortgage REIT Index; (iv) an index of selected issuers in our peer group, composed of Annaly Capital Management, Inc., Anworth Mortgage Asset Corporation, Capstead Mortgage Corporation and Armour Residential REIT, Inc. (collectively, the "Agency REIT Peer Group").

*\$100 invested on 12/31/13 in stock or index, including reinvestment of dividends.

Fiscal year ending December 31.

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	December 31,				
	2018	2017	2016	2015	2014
AGNC Investment Corp.	\$163.31	\$167.51	\$135.42	\$114.57	\$127.15
S&P 500	\$150.33	\$157.22	\$129.05	\$115.26	\$113.69
FTSE NAREIT Mortgage REITs	\$154.09	\$158.08	\$131.96	\$107.42	\$117.88
Agency REIT Peer Group ¹	\$159.32	\$174.03	\$136.02	\$113.23	\$119.10

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.

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Other Data (Unaudited) *	Fiscal Year				
	2018	2017	2016	2015	2014
Average investment securities - at par	\$60,733	\$45,198	\$47,101	\$51,759	\$53,578
Average investment securities - at cost	\$63,348	\$47,330	\$49,268	\$54,019	\$56,051
Net TBA dollar roll position - at par (as of period end)	\$7,152	\$15,474	\$10,916	\$7,295	\$14,412
Net TBA dollar roll position - at cost (as of period end)	\$7,252	\$15,739	\$11,312	\$7,430	\$14,576
Net TBA dollar roll position - at market value (as of period end)	\$7,322	\$15,742	\$11,165	\$7,444	\$14,768
Net TBA dollar roll position - at carrying value (as of period end) ³	\$70	\$3	\$(147)	\$14	\$192
Average net TBA portfolio - at cost	\$14,697	\$16,859	\$10,329	\$7,547	\$13,212
Average total assets - at fair value	\$79,094	\$58,727	\$56,931	\$63,674	\$67,007
Average Agency repurchase agreements and other debt outstanding ⁴	\$55,592	\$41,942	\$44,566	\$48,641	\$50,015
Average stockholders' equity ⁵	\$9,050	\$7,933	\$7,718	\$8,817	\$9,295
Average tangible net book value "at risk" leverage ⁶	8.3:1	8.0:1	7.5:1	6.4:1	7.0:1
Tangible net book value "at risk" leverage (as of period end) ⁷	9.0:1	8.1:1	7.7:1	6.8:1	6.9:1
Economic return on tangible common equity ⁸	(4.9)%	12.1 %	3.9 %	(2.6)%	18.5 %
Expenses % of average total assets ⁹	0.09 %	0.12 %	0.17 %	0.22 %	0.21 %
Expenses % of average assets, including average net TBA position ⁹	0.08 %	0.09 %	0.14 %	0.20 %	0.18 %
Expenses % of average stockholders' equity ⁹	0.81 %	0.92 %	1.24 %	1.58 %	1.52 %

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

1. Net book value per common share is calculated as total stockholders' equity, less preferred stock liquidation preference, divided by number of common shares outstanding as of period end.

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

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

4. Other debt includes debt of consolidated VIEs. Amount excludes U.S. Treasury repo agreements and TBA contracts.

5. Average stockholders' equity calculated as average month-ended stockholders' equity during the period.

6. Average tangible net book value "at risk" leverage is calculated by dividing the sum of daily weighted average mortgage borrowings outstanding (Agency repo, other debt and TBA securities (at cost)) for the period by the sum of average stockholders' equity less average investment in REIT equity securities, goodwill and other intangible asset, net for the period. Leverage excludes U.S. Treasury repurchase agreements.

7. "At risk" leverage as of period end is calculated by dividing the sum of mortgage borrowings outstanding and receivable/payable for unsettled investment securities as of period end (at cost) by the sum of total stockholders' equity less the fair value of investments in REIT equity securities, goodwill and other intangible asset, net at period end. Leverage excludes U.S. Treasury repurchase agreements.

8. Economic return on tangible common equity, for fiscal years 2018 and 2017, represents the sum of the change in tangible net book value per common share and dividends declared on common stock during the period over beginning tangible net book value per common share. For fiscal years prior to 2017, amounts represent the sum of the change in net book value per common share and dividends declared on common stock during the period over beginning net book value per common share.

9. Expenses for fiscal year 2018 have been adjusted to exclude \$27 million of non-recurring expenses associated with the sale of MTGE Investment Corp. and corresponding termination MTGE's management agreement, including the write-off of the MTGE management agreement intangible asset and other miscellaneous expenses. Expenses for fiscal year 2016 have been adjusted to exclude non-recurring expenses of \$9 million associated with our acquisition of AMM.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide a reader of our consolidated financial statements with a narrative from the perspective of management, and should be read in conjunction with the consolidated financial statements and accompanying notes included in this Annual Report on Form 10-K. Our MD&A is presented in eight sections:

Executive Overview

Financial Condition

Summary of Critical Accounting Estimates

Results of Operations

Liquidity and Capital Resources

Off-Balance Sheet Arrangements

Aggregate Contractual Obligations

Forward-Looking Statements

EXECUTIVE OVERVIEW

We are an internally-managed REIT. We commenced operations on May 20, 2008 following the completion of our initial public offering. Our common stock is traded on The Nasdaq Global Select Market under the symbol "AGNC." As a REIT, we are required to distribute annually 90% of our taxable income. As a REIT, we will generally not be subject to U.S. federal or state corporate taxes on our taxable income to the extent that we distribute all our annual taxable income to our stockholders on a timely basis. It is our intention to distribute 100% of our taxable income within the time limits prescribed by the Internal Revenue Code, which may extend into the subsequent taxable year. We invest primarily in Agency RMBS on a leveraged basis. These investments consist of residential mortgage pass-through securities and collateralized mortgage obligations for which the principal and interest payments are guaranteed by a U.S. Government-sponsored enterprise, such as Fannie Mae and Freddie Mac, or by a U.S. Government agency, such as Ginnie Mae. We may also invest in other types of mortgage and mortgage-related residential and commercial mortgage-backed securities where repayment of principal and interest is not guaranteed by a GSE or U.S. Government agency or in other investments in, or related to, the housing, mortgage or real estate markets.

Our principal objective is to provide our stockholders with attractive risk-adjusted returns through a combination of monthly dividends and tangible net book value accretion. We generate income from the interest earned on our investments, net of associated borrowing and hedging costs, and net realized gains and losses on our investment and hedging activities. We fund our investments primarily through borrowings structured as repurchase agreements. The size and composition of our investment portfolio depends on the investment strategies we implement, availability of attractively priced investments, suitable financing to appropriately leverage our investment portfolio and overall market conditions. Market conditions are influenced by a variety of factors, including interest rates, prepayment expectations, liquidity, housing prices, unemployment rates, general economic conditions, government participation in the mortgage market, regulations and relative returns on other assets.

Trends and Recent Market Impacts

Fiscal year 2018 was marked by increased market volatility, higher interest rates, a flattening yield curve and dramatic swings in investor sentiment. For much of the year, a strong U.S. economy drove U.S. stocks and Treasury yields higher, with the 10-year U.S. Treasury note yield peaking at 3.24% in early November 2018, before moving sharply lower to close the year at 2.69%, 28 basis points higher than the level at the start of the year. After reaching market highs in September 2018, U.S. equities declined significantly during the fourth quarter, suffering their worst quarterly loss since the height of the financial crisis nearly 10 years ago, as concerns over trade tensions, tightening monetary policy, weakening global growth and a deteriorating earnings outlook took center stage.

During fiscal year 2018, the Fed continued to tighten monetary policy, increasing the federal funds rate four times and continuing its balance sheet reduction of U.S. Treasury securities and Agency RMBS. The increase in short-term interest rates outpaced the move in longer-term yields and led to a significant flattening of the yield curve, with the spread between two and 10-year U.S. Treasury notes narrowing to 20 basis points by year-end. The combination of increased market volatility, higher rate expectations, and the flattening yield curve drove Agency RMBS spreads to benchmark interest rates materially wider and was the primary driver of our \$3.13 per common share, or 15.9%, decline in tangible net book value during the year. Our economic return for the year was negative 4.9%, which includes both the decline in our net book value and dividends paid of \$2.16 per common share.

Although wider spreads negatively impacted our tangible net book value, it also significantly enhanced the expected return on Agency RMBS. As a result, we opportunistically raised approximately \$2.6 billion of accretive new equity capital during the year and increased our operating leverage predominately during the fourth quarter. Looking ahead, we believe inflation will remain contained at or near the Fed's 2% target and U.S. growth is likely to slow, prompting the Fed to stop or significantly slow the pace of future rate increases. With the Fed's hiking cycle likely near its end and Agency RMBS spreads materially wider than a year ago, expected levered returns on Agency RMBS have improved and compare very favorably to other fixed income products. Consequently, we anticipate that we will continue to operate with moderately higher leverage to take advantage of this enhanced return environment.

Our investment portfolio totaled \$91.6 billion, inclusive of TBA securities, as of December 31, 2018, compared to \$72.8 billion as of December 31, 2017. Our "at risk" leverage ratio was 9.0x our tangible equity as of December 31, 2018, up from 8.1x as of December 31, 2017 and up from our average tangible "at risk" leverage of 8.3x for fiscal year 2018.

To mitigate the impact of higher interest rates, we maintained an elevated interest rate hedge position during fiscal year 2018, with our interest rate hedge position totaling 94% and 97% of our funding liabilities as of December 31, 2018 and 2017, respectively. Our hedges are not designed to protect our net book value against wider Agency RMBS spreads or to fully insulate our portfolio from changes in interest rates. Consequently, changes in interest rates and/or wider mortgage spreads can adversely impact our tangible net book value. For information regarding our interest rate and spread sensitivity please refer to Item 7A. Quantitative and Qualitative Disclosures about Market Risk of this Form 10-K.

The cost of our repurchase agreement funding increased largely in line with the increase in the fed funds rate and averaged 2.11% for the year, compared to 1.25% for fiscal year 2017. Our total cost of funds, which includes the cost of our repurchase agreements, the implied funding costs of our TBA securities and our interest rate swap hedges, increased by 45 basis points to an average of 1.84% for fiscal year 2018. Our average asset yield, including the implied yield on our TBA assets and excluding "catch-up" premium amortization associated with changes in our CPR forecast, increased 27 basis points to 3.11% for 2018, from 2.84% for 2017, as we increased our holdings of higher coupon, 30-year fixed rate securities. As of the December 31, 2018, 30 year-fixed rate Agency RMBS, including TBA securities, represented 84% of our investment portfolio, compared to 77% as of December 31, 2017. Our net interest spread, which represents the difference between our asset yield and our cost of funds, was 1.27% for the year, compared to 1.45% for 2017.

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, 2017	Mar. 31, 2018	June 30, 2018	Sept. 30, 2018	Dec. 31, 2018	vs Dec. 31, 2017
LIBOR:						
1-Month	1.56%	1.88%	2.09%	2.26%	2.50%	+0.94bps
3-Month	1.69%	2.31%	2.34%	2.40%	2.81%	+1.12bps
U.S. Treasury Security Rate:						
2-Year U.S. Treasury	1.89%	2.27%	2.53%	2.82%	2.49%	+0.60bps
5-Year U.S. Treasury	2.21%	2.57%	2.73%	2.95%	2.51%	+0.30bps
10-Year U.S. Treasury	2.41%	2.74%	2.85%	3.06%	2.69%	+0.28bps
30-Year U.S. Treasury	2.74%	2.97%	2.98%	3.20%	3.02%	+0.28bps
Interest Rate Swap Rate:						
2-Year Swap	2.08%	2.58%	2.79%	2.99%	2.67%	+0.59bps
5-Year Swap	2.24%	2.71%	2.88%	3.07%	2.58%	+0.34bps
10-Year Swap	2.40%	2.78%	2.93%	3.12%	2.72%	+0.32bps
30-Year Swap	2.53%	2.82%	2.93%	3.13%	2.85%	+0.32bps
30-Year Fixed Rate Agency Price:						
3.0%	\$100.02	\$97.52	\$96.86	\$95.67	\$97.54	-\$2.48
3.5%	\$102.70	\$100.20	\$99.52	\$98.41	\$99.95	-\$2.75
4.0%	\$104.59	\$102.61	\$101.96	\$100.97	\$101.94	-\$2.65
4.5%	\$106.40	\$104.70	\$104.13	\$103.16	\$103.53	-\$2.87
15-Year Fixed Rate Agency Price:						
2.5%	\$99.88	\$97.98	\$97.22	\$96.47	\$97.70	-\$2.18
3.0%	\$101.88	\$99.88	\$99.41	\$98.77	\$99.80	-\$2.08
3.5%	\$103.23	\$101.94	\$101.16	\$100.51	\$101.23	-\$2.00

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4.0%	\$102.72	\$102.63	\$102.58	\$101.98	\$102.34	-\$0.38
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Price information is for generic instruments only and is not reflective of our specific portfolio holdings. Price information is as of 3:00 p.m. (EST) on such date and can vary by source. Prices and interest rates in the table above were obtained from Barclays. LIBOR rates were obtained from Bloomberg.

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FINANCIAL CONDITION

As of December 31, 2018 and 2017, our investment portfolio consisted of \$84.3 billion and \$57.1 billion of investment securities, at fair value, respectively, and \$7.3 billion and \$15.7 billion of TBA securities, at fair value, respectively. The following table is a summary of our investment portfolio as of December 31, 2018 and 2017 (dollars in millions):

Investment Portfolio (Includes TBAs) ¹	December 31, 2018				December 31, 2017			
	Amortized Cost	Fair Value	Average Coupon	%	Amortized Cost	Fair Value	Average Coupon	%
Fixed rate Agency RMBS and TBA securities:								
≤ 15-year:								
≤ 15-year RMBS	\$7,386	\$7,294	3.30 %	8 %	\$8,951	\$8,933	3.31 %	12 %
15-year TBA securities	3,635	3,673	3.61 %	4 %	5,025	5,015	2.90 %	7 %
Total ≤ 15-year	11,021	10,967	3.40 %	12 %	13,976	13,948	3.16 %	19 %
20-year RMBS	778	774	3.95 %	1 %	673	687	3.48 %	1 %
30-year:								
30-year RMBS	74,883	73,685	3.87 %	80 %	45,853	45,406	3.72 %	62 %
30-year TBA securities	3,617	3,649	4.47 %	4 %	10,714	10,727	3.40 %	15 %
Total 30-year	78,500	77,334	3.90 %	84 %	56,567	56,133	3.65 %	77 %
Total fixed rate Agency RMBS and TBA securities	90,299	89,075	3.84 %	97 %	71,216	70,768	3.55 %	97 %
Adjustable rate Agency RMBS	212	213	3.10 %	— %	278	283	2.90 %	1 %
CMO Agency RMBS:								
CMO	588	583	3.46 %	1 %	629	631	3.43 %	1 %
Interest-only strips	77	84	3.61 %	— %	101	112	4.39 %	— %
Principal-only strips	95	94	— %	— %	112	116	— %	— %
Total CMO Agency RMBS	760	761	3.21 %	1 %	842	859	3.58 %	1 %
Total Agency RMBS and TBA securities	91,271	90,049	3.83 %	98 %	72,336	71,910	3.55 %	99 %
Non-Agency RMBS	264	266	3.83 %	1 %	7	7	2.50 %	— %
CMBS	280	282	4.58 %	— %	28	29	6.55 %	— %
CRT	1,006	1,012	5.86 %	1 %	834	876	5.26 %	— %
Total investment portfolio	\$92,821	\$91,609	3.85 %	100 %	\$73,205	\$72,822	3.57 %	100 %

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

TBA securities are recorded as derivative instruments in our accompanying consolidated financial statements and our TBA dollar roll transactions represent a form of off-balance sheet financing. As of December 31, 2018 and 2017, our TBA positions had a net carrying value of \$70 million and \$3 million, respectively, reported in derivative assets/(liabilities) on our accompanying consolidated balance sheets. The net carrying value represents the difference between the fair value of the underlying Agency security in the TBA contract and the contract price to be paid or received for the underlying Agency security.

As of December 31, 2018 and 2017, the weighted average yield on our investment securities (excluding TBA securities) was 3.31% and 2.89%, respectively.

The following tables summarize certain characteristics of our fixed rate Agency RMBS portfolio, inclusive of TBAs, as of December 31, 2018 and 2017 (dollars in millions):

Fixed Rate Agency RMBS and TBA Securities	December 31, 2018				% Lower Loan Balance & HARP ^{1,2}	Excludes Net TBA Position			Projected Life CPR ⁴
	Includes Net TBA Position	Par Value	Amortized Cost	Fair Value		Amortized Cost Basis	Weighted Average WAC ³	Yield ⁴	
Fixed rate									
≤ 15-year									
2.5%	\$1,157	\$1,170	\$1,139	68%	101.2%	2.98%	2.11%	74	9%
3.0%	2,651	2,677	2,650	58%	101.7%	3.51%	2.44%	56	9%
3.5%	4,444	4,498	4,502	41%	101.9%	4.07%	2.96%	25	10%
4.0%	2,449	2,507	2,509	34%	103.5%	4.47%	2.96%	44	10%
4.5%	160	167	165	98%	104.0%	4.87%	3.01%	99	11%
≥ 5.0%	2	2	2	27%	102.4%	6.55%	4.57%	134	14%
Total ≤ 15-year	10,863	11,021	10,967	47%	102.0%	3.82%	2.68%	46	10%
20-year									
3.5%	314	320	318	74%	102.0%	4.05%	3.00%	70	10%
4.0%	206	214	213	88%	103.4%	4.45%	3.28%	24	10%
4.5%	230	242	241	92%	105.2%	5.00%	3.35%	25	11%
≥ 5.0%	2	2	2	—%	105.7%	5.94%	3.34%	128	16%
Total 20-year:	752	778	774	84%	103.4%	4.46%	3.19%	44	11%
30-year:									
3.0%	3,178	3,133	3,108	3%	100.1%	3.58%	2.97%	47	6%
3.5%	22,410	23,258	22,496	58%	103.2%	4.06%	3.05%	38	6%
4.0%	37,230	38,564	38,147	48%	103.8%	4.54%	3.44%	24	8%
4.5%	12,777	13,319	13,361	61%	104.7%	4.99%	3.75%	14	9%
5.0%	133	143	142	106%	106.8%	5.53%	3.80%	61	9%
≥ 5.5%	75	83	80	36%	110.5%	6.17%	3.35%	147	12%
Total 30-year	75,803	78,500	77,334	52%	103.6%	4.41%	3.34%	28	8%
Total fixed rate	\$87,418	\$90,299	\$89,075	51%	103.5%	4.36%	3.28%	30	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 \$102,000 and \$113,000 for 15-year and 30-year securities, respectively, as of December 31, 2018.

HARP securities are defined as pools backed by 100% refinance loans with LTV ≥ 80%. Our HARP securities had a weighted average LTV of 119% and 136% for 15-year and 30-year securities, respectively, as of December 31, 2018.

WAC represents the weighted average coupon of the underlying collateral.

Portfolio yield incorporates a projected life CPR assumption based on forward rate assumptions as of December 31, 2018.

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

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 \$109,000 for 15-year and 30-year securities, respectively, as of December 31, 2017.

HARP securities are defined as pools backed by 100% refinance loans with LTVs ≥ 80%. Our HARP securities had a 2. weighted average LTV of 114% and 136% for 15-year and 30-year securities, respectively, as of December 31, 2017.

3. WAC represents the weighted average coupon of the underlying collateral.

4. Portfolio yield incorporates a projected life CPR assumption based on forward rate assumptions as of December 31, 2017.

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

CRT and Non-Agency Security Credit Ratings ¹	December 31, 2018			December 31, 2017		
	CRT	RMBS	CMBS	CRT	RMBS	CMBS
AAA	\$—	\$ 160	\$ 52	\$—	\$ 7	\$ —
AA	—	17	152	—	—	—
A	17	33	15	1	—	—
BBB	25	43	53	34	—	29
BB	492	8	10	370	—	—

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B	453	2	—	455	—	—
Not Rated	25	3	—	16	—	—
Total	\$1,012	\$ 266	\$ 282	\$876	\$ 7	\$ 29

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

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

from 3.8% to 4.8%. As of 2017, our CRT securities had floating rate coupons ranging from 3.9% to 8.5%, referenced to loans originated between 2012 and 2017 with weighted average coupons ranging from 3.6% to 4.4%.

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 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 their projected lives, taking into account scheduled contractual payments and estimated prepayments, using the interest method. The weighted average cost basis of our securities as of December 31, 2018 was 103.5% of par value; therefore, faster actual or projected prepayments could significantly reduce the yield on our assets.

Future prepayment rates are difficult to predict, and we rely on a third-party service provider and our experience and analysis of historical and current market data to arrive at what we believe to be reasonable estimates. Our third-party service provider estimates prepayment speeds using models that incorporate the forward yield curve, current mortgage rates, mortgage rates on the outstanding loans, age and size of the outstanding loans, loan-to-value ratios, interest rate volatility and other factors. We review the prepayment speeds estimated and compare the results to market consensus prepayment speeds, if available. We also consider historical prepayment speeds and current market conditions to validate the reasonableness of the third-party estimates and, based on our judgment, we may adjust the estimates. We review our actual and anticipated prepayment experience on at least a quarterly basis and effective yields are recalculated when differences arise between (i) our previously estimated future prepayments and (ii) actual prepayments to date and 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 instantaneously go up or down by 50 and 100 basis points.

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

Fair Value of Investment Securities

We estimate the fair value of our investment securities based on prices provided by multiple third-party pricing services and non-binding dealer quotes (collectively "pricing sources"). These pricing sources use various valuation approaches, including market and income approaches, using "Level 2" inputs based on quoted prices for similar securities in active markets and model-derived valuations whose inputs are observable or whose significant value drivers are observable. The pricing sources primarily utilize a matrix pricing technique that interpolates the estimated fair value of our Agency RMBS based on observed quoted prices for forward contracts in the Agency RMBS TBA

market of the same coupon, maturity and issuer, adjusted to reflect the specific characteristics of the pool of mortgages underlying the Agency security, which may include maximum loan balance, loan vintage, loan-to-value ratio, geography and other characteristics as may be appropriate. The pricing sources may also utilize discounted cash flow model-derived pricing techniques to estimate the fair value of investment securities, which incorporate market-based discount rate assumptions based on observable inputs such as recent trading activity, credit data, volatility statistics, benchmark interest rate curves and other market data that are current as of the measurement date and may include certain unobservable inputs,

such as assumptions of future levels of prepayment, defaults and loss severities. We attempt to validate these quotes 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.

At the time we purchase a security, we either designate it as held-to-maturity, available-for-sale or trading, depending on our ability and intent to hold such security to maturity. Alternatively, we may make an irrevocable election to apply the fair value option of accounting for the security. Since we actively manage our portfolio and may sell securities prior to maturity, we have not designated any of our securities as held-to-maturity. Consequently, all our securities are reported at fair value in our consolidated financial statements as they have either been designated as available-for-sale or trading or we have elected the fair value option of accounting. Unrealized gains and losses on securities classified as available-for-sale are reported in accumulated OCI. Unrealized gains and losses on securities classified as trading or for which we elected the fair value option are reported in net income through other gain (loss) during the period in which they occur. Prior to fiscal year 2017, we primarily designated our investment securities as available-for-sale. On January 1, 2017, we began electing the fair value option of accounting for all investment securities acquired after fiscal year 2016. In our view, this election simplifies the accounting for investment securities and more appropriately reflects the results of our operations for a reporting period, as the fair value changes for these assets are presented in a manner consistent with the presentation and timing of the fair value changes of our hedging instruments. As of December 31, 2018, we had elected the fair value option for 72% of our investment securities. The remaining 28% of our securities were designated as available-for-sale securities and consisted almost entirely of Agency RMBS. We evaluate securities classified 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. If either of the first two conditions exists as of the financial reporting date, the entire amount of the impairment loss, if any, is recognized in earnings as a realized loss and the cost basis of the security is adjusted to its fair value. If the third condition exists, the OTTI is separated into (i) the amount relating to credit loss (the "credit component") and (ii) the amount relating to all other factors (the "non-credit components"). Only the credit component is recognized in earnings, with the non-credit components recognized in OCI. A general allowance for unidentified impairments in a portfolio of securities is not permitted.

In evaluating whether our available-for-sale securities are other-than-temporarily impaired, we consider the liquidity of the Agency securities market, which allows us to obtain competitive bids and execute on sale transactions typically within a day or two of deciding to sell a security, such that we generally do not decide to sell specific securities until shortly prior to initiating the sale. We also consider the size of our available-for-sale portfolio relative to other liquid and/or unencumbered assets available to meet margin calls and other liquidity needs, and we take into account that Agency RMBS, as a function of their GSE or U.S. Government agency guarantee, do not have a measurable credit component.

Derivative Financial Instruments/Hedging Activity

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

We recognize all derivatives as either assets or liabilities on our consolidated balance sheets, measured at fair value. We do not designate our derivative instruments as hedges for GAAP accounting purposes; therefore, all changes in

their fair value are reported in earnings in our consolidated statements 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 if 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 "economic interest income," "economic interest expense," "net spread and dollar roll income," "net spread and dollar roll income, excluding 'catch-up' premium amortization," "estimated taxable income" and the related per common share measures and certain financial metrics derived from such non-GAAP information, such as "cost of funds" and "net interest spread."

"Economic interest income" is measured as interest income (GAAP measure), adjusted (i) to exclude "catch-up" premium amortization associated with changes in CPR estimates and (ii) to include TBA dollar roll implied interest income. "Economic interest expense" is measured as interest expense (GAAP measure) adjusted to include TBA dollar roll implied interest expense and interest rate swap periodic income/(cost). "Net spread and dollar roll income, excluding "catch-up" premium amortization" includes (i) the components of economic interest income and economic interest expense and dividends on REIT equity securities (referred to as "adjusted net interest and dollar roll income"), less (ii) total operating expenses (GAAP measure), net of management fee income (GAAP measure), adjusted to exclude one-time, non-recurring income and expenses.

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

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

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

Economic Interest Income and Asset Yields

The following table summarizes our economic interest income (a non-GAAP measure) for fiscal years 2018, 2017 and 2016, which includes the combination of interest income (a GAAP measure) on our holdings reported as investment securities on our consolidated balance sheets, adjusted to exclude estimated "catch-up" premium amortization adjustments due to changes in our CPR forecast, and implied interest income on our TBA securities (dollars in millions):

	Fiscal Year 2018		Fiscal Year 2017		Fiscal Year 2016	
	Amount	Yield	Amount	Yield	Amount	Yield
Interest income:						
Cash/coupon interest income	\$2,280	3.75 %	\$1,671	3.70 %	\$1,721	3.64 %
Net premium amortization	(331)	(0.67)%	(378)	(0.97)%	(400)	(0.96)%
Interest income (GAAP measure)	1,949	3.08 %	1,293	2.73 %	1,321	2.68 %
Estimated "catch-up" premium amortization (benefit) cost due to change in CPR forecast	(23)	(0.04)%	37	0.08 %	10	0.02 %
Interest income, excluding "catch-up" premium amortization	1,926	3.04 %	1,330	2.81 %	1,331	2.70 %
TBA dollar roll income - implied interest income ^{1,2}	500	3.40 %	493	2.92 %	264	2.56 %
Economic interest income, excluding "catch-up" amortization (non-GAAP measure) ³	\$2,426	3.11 %	\$1,823	2.84 %	\$1,595	2.68 %
Weighted average actual portfolio CPR for investment securities held during the period	8.7	%	10.9	%	12.3	%
Weighted average projected CPR for the remaining life of investment securities held as of period end	7.9	%	8.4	%	8.0	%
Average 30-year fixed rate mortgage rate as of period end ⁴	4.55	%	3.99	%	4.32	%
10-year U.S. Treasury rate as of period end	2.69	%	2.41	%	2.43	%

¹ Reported in gain (loss) on derivatives instruments and other securities, net in the accompanying consolidated statements of operations.

Implied interest income from TBA dollar roll transactions is computed as the sum of (i) TBA dollar roll income and (ii) estimated TBA implied funding cost (see Economic Interest Expense and Aggregate Cost of Funds below). TBA dollar roll income represents the price differential, or "price drop," between the TBA price for current month settlement versus the TBA price for forward month settlement and is the economic equivalent to interest income on the underlying Agency securities, less an implied funding cost, over the forward settlement period. Amount is net of TBAs used for hedging purposes. Amount excludes TBA mark-to-market adjustments.

³ The combined asset yield is calculated on a weighted average basis based on our average investment and TBA balances outstanding during the period and their respective yields.

⁴ Source: Freddie Mac Primary Fixed Mortgage Rate Mortgage Market Survey

The principal elements impacting our economic interest income are the size of our average investment portfolio and the yield (actual and implied) on our securities. The following table includes a summary of the estimated impact of each of these elements on our economic interest income for fiscal years 2018 and 2017, compared to the prior year periods (in millions):

Impact of Changes in the Principal Elements Impacting Economic Interest Income

Fiscal Year 2018 vs. 2017	Total Increase /	Due to Change in Average	
		Portfolio Size	Asset Yield

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	(Decrease)		
Interest Income (GAAP measure)	\$ 656	\$438	\$218
Estimated "catch-up" premium amortization due to change in CPR forecast	(60)	—	(60)
Interest income, excluding "catch-up" premium amortization	596	438	158
TBA dollar roll income - implied interest income	7	(63)	70
Economic interest income, excluding "catch-up" amortization (non-GAAP measure)	\$ 603	\$375	\$228

	Due to Change in Average		
Fiscal Year 2017 vs. 2016	Total Increase / (Decrease)	Portfolio Size	Asset Yield
Interest Income (GAAP measure)	\$ (28)	\$(52)	\$24
Estimated "catch-up" premium amortization cost due to change in CPR forecast	27	—	27
Interest income, excluding "catch-up" premium amortization cost	(1)	(52)	51
TBA dollar roll income - implied interest income	229	167	62
Economic interest income, excluding "catch-up" amortization (non-GAAP measure)	\$ 228	\$115	\$113

Our average investment portfolio, inclusive of TBAs, increased 22% and 8% (at cost) for fiscal years 2018 and 2017, respectively, compared to the prior year periods, primarily due to the deployment of new equity capital. The increase in our average asset yield over the prior year periods was largely due to changes in asset composition, as we increased our holdings of higher coupon, 30-year fixed rate securities relative to shorter duration assets.

Leverage

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

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

Our tangible net book value "at risk" leverage was 9.0x, 8.1x and 7.7x as of December 31, 2018, 2017 and 2016, respectively. The table below presents a summary of our leverage ratios for the periods listed (dollars in millions):

Quarter Ended	Agency Repurchase Agreements and Other Debt ¹			Net TBA Position Long/(Short) ²		Average Tangible Net Book Value "At Risk" Leverage during the Period ³	Average "At Risk" Leverage during the Period ⁴	Tangible Net Book Value "At Risk" Leverage as of Period End ³	"At Risk" Leverage as of Period End ⁵
	Average Daily Amount	Maximum Daily Amount	Ending Amount	Average Daily Amount	Ending Amount				
December 31, 2018	\$68,499	\$77,442	\$75,992	\$8,066	\$7,252	8.4:1	7.9:1	9.0:1	8.5:1
September 30, 2018	\$56,265	\$66,969	\$65,975	\$18,270	\$9,436	8.5:1	8.0:1	8.2:1	7.8:1
June 30, 2018	\$47,823	\$49,892	\$49,152	\$16,912	\$19,898	8.0:1	7.5:1	8.3:1	7.8:1
March 31, 2018	\$49,567	\$50,645	\$49,292	\$15,585	\$13,529	8.2:1	7.7:1	8.2:1	7.6:1
December 31, 2017	\$48,122	\$51,322	\$50,653	\$18,355	\$15,739	8.1:1	7.6:1	8.1:1	7.6:1
September 30, 2017	\$41,406	\$47,442	\$45,885	\$18,616	\$19,433	7.9:1	7.4:1	8.0:1	7.6:1
June 30, 2017	\$38,945	\$40,112	\$39,463	\$16,931	\$17,283	8.0:1	7.4:1	8.1:1	7.5:1
March 31, 2017	\$39,203	\$41,221	\$39,809	\$13,460	\$14,377	7.8:1	7.2:1	8.0:1	7.4:1
December 31, 2016	\$41,031	\$42,157	\$41,183	\$14,141	\$11,312	7.8:1	7.3:1	7.7:1	7.1:1
September 30, 2016	\$44,401	\$46,555	\$41,154	\$10,748	\$15,540	7.6:1	7.1:1	7.7:1	7.2:1
June 30, 2016	\$46,948	\$48,875	\$45,502	\$8,238	\$6,975	N/A	7.2:1	N/A	7.2:1
March 31, 2016	\$45,926	\$49,767	\$48,875	\$8,144	\$5,983	N/A	7.0:1	N/A	7.3:1

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

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

3. 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.

4. Average "at risk" leverage during the period was calculated by dividing the sum of our daily weighted average mortgage borrowings outstanding during the period by the sum of our average month-ended stockholders' equity less our average investment in REIT equity securities for the period.

5. "At risk" leverage as of period end is calculated by dividing the sum of our mortgage borrowings outstanding and our receivable/payable for unsettled investment securities as of period end (at cost) by the sum of our total stockholders' equity less the fair value of investments in REIT equity securities at period end. Leverage excludes U.S. Treasury repo agreements.

Economic Interest Expense and Aggregate Cost of Funds

The following table summarizes our economic interest expense and aggregate cost of funds (non-GAAP measures) for fiscal years 2018, 2017 and 2016 (dollars in millions), which includes the combination of interest expense on Agency repurchase agreements and other debt (GAAP measure), implied interest expense on our TBA securities and interest rate swap periodic interest (income) cost:

Economic Interest Expense and Aggregate Cost of Funds ¹	Fiscal Year 2018		Fiscal Year 2017		Fiscal Year 2016	
	Amount	Cost of Funds	Amount	Cost of Funds	Amount	Cost of Funds
Repurchase agreement and other debt - interest expense (GAAP measure) ²	\$1,173	2.11 %	\$524	1.25 %	\$394	0.80 %
TBA dollar roll income - implied interest expense ^{3,4}	273	1.85 %	164	0.97 %	48	0.47 %
Economic interest expense - before interest rate swap costs ⁵	1,446	2.06 %	688	1.17 %	442	0.73 %
Interest rate swap periodic interest (income) cost, net ^{3,6}	(151)	(0.22)%	127	0.22 %	255	0.54 %
Total economic interest expense (non-GAAP measure)	\$1,295	1.84 %	\$815	1.39 %	\$697	1.27 %

^{1.} Amounts exclude interest rate swap termination fees and variation margin settlements paid or received, forward starting swaps and the impact of other supplemental hedges, such as swaptions and U.S. Treasury positions.

^{2.} Fiscal year 2016 "repurchase agreement and other debt - interest expense (GAAP measure)" includes periodic interest costs of interest rate swaps previously designated as hedges under GAAP, net of \$39 million.

^{3.} Reported in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income.

^{4.} The implied funding cost of TBA dollar roll transactions is determined using the price differential, or "price drop," between the TBA price for current month settlement versus the TBA price for forward month settlement and market based assumptions regarding the "cheapest-to-deliver" collateral that can be delivered to satisfy the TBA contract, such as the anticipated collateral's weighted average coupon, weighted average maturity and projected 1-month CPR. The average implied funding cost for all TBA transactions is weighted based on our daily average TBA balance outstanding for the period.

^{5.} The combined cost of funds for total mortgage borrowings outstanding, before interest rate swap costs, is calculated on a weighted average basis based on average repo, other debt and TBA balances outstanding during the period and their respective cost of funds.

^{6.} Interest rate swap periodic interest (income) cost is measured as a percent of average mortgage borrowings outstanding for the period.

The principal elements impacting our economic interest expense are (i) the size of our average mortgage borrowings and interest rate swap portfolio outstanding during the period, (ii) the average interest rate (actual and implied) on our mortgage borrowings and (iii) the average net interest rate paid/received on our interest rate swaps. The following table includes a summary of the estimated impact of these elements on our economic interest expense for fiscal years 2018 and 2017, compared to the prior year periods (in millions):

Impact of Changes in the Principal Elements of Economic Interest Expense

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

Fiscal Year 2017 vs. 2016	Total Increase / (Decrease)	Due to Change in Average Borrowing / Swap / Swap Rate Balance	
Repurchase agreements and other debt interest expense	\$ 169	\$(21)	\$ 190
TBA dollar roll income - implied interest expense	116	30	86
Periodic interest rate swap costs	(167)	33	(200)
Total change in economic interest expense	\$ 118	\$42	\$ 76

Our average mortgage borrowings, inclusive of TBAs, increased by 20% and 7% for fiscal years 2018 and 2017, respectively, compared to the prior year periods, as a function of our higher asset base. The increase in the average interest rate (actual and implied) on our mortgage borrowings over the prior year periods was largely a function of increases in the federal funds rate during fiscal years 2017 and 2018. The decrease in our periodic swap costs over the prior year periods was due to the receive-floating rate leg of our interest rate swaps resetting to higher prevailing three-month LIBOR rates.

The table below presents a summary of the ratio of our average interest rates swaps outstanding, excluding forward starting swaps, to our average mortgage borrowings for fiscal years 2018, 2017 and 2016 (dollars in millions):

Average Ratio of Interest Rate Swaps (Excluding Forward Starting Swaps) to Mortgage Borrowings Outstanding	Fiscal Year			
	2018	2017	2016	
Average Agency repo and other debt outstanding	\$55,592	\$41,942	\$44,566	
Average net TBA portfolio outstanding - at cost	\$14,697	\$16,859	\$10,329	
Average mortgage borrowings outstanding	\$70,289	\$58,801	\$54,895	
Average notional amount of interest rate swaps outstanding (excluding forward starting swaps)	\$43,137	\$37,331	\$33,541	
Ratio of average interest rate swaps to mortgage borrowings outstanding	61	% 63	% 61	%
Average interest rate swap pay-fixed rate (excluding forward starting swaps)	1.83	% 1.55	% 1.56	%
Average interest rate swap receive-floating rate	(2.18))% (1.21))% (0.69))%
Average interest rate swap net pay/(receive) rate	(0.35))% 0.34	% 0.87	%

For fiscal years 2018, 2017 and 2016, we had an average forward starting swap balance of \$4.5 billion, \$2.4 billion and \$4.8 billion, respectively. Forward starting interest rate swaps do not impact our economic interest expense and aggregate cost of funds until they commence accruing net interest settlements on their forward start dates. Including forward starting swaps, our average ratio of interest rate swaps outstanding to our average mortgage borrowings was 68%, 68% and 70% for fiscal years 2018, 2017 and 2016, respectively.

Net Interest Spread

The following table presents a summary of our net interest spread (including the impact of TBA dollar roll income, interest rate swaps and excluding "catch-up" premium amortization) for fiscal years 2018, 2017 and 2016:

Investment and TBA Securities - Net Interest Spread	Fiscal Year		
	2018	2017	2016
Average asset yield, excluding "catch-up" premium amortization	3.11 %	2.84 %	2.68 %
Average aggregate cost of funds	(1.84)%	(1.39)%	(1.27)%
Average net interest spread, excluding "catch-up" premium amortization	1.27 %	1.45 %	1.41 %

Management Fee Income

Management fee income increased by \$38 million to \$54 million for fiscal year 2018, from fiscal year 2017, due to a \$42 million termination fee received from MTGE associated with the sale of MTGE to a third party and the resultant termination of its management agreement with AGNC during fiscal year 2018.

Operating Expense

Operating expense increased by \$27 million to \$100 million for fiscal year 2018, from fiscal year 2017, due to the write-off of the MTGE management agreement intangible asset balance of \$23 million and other expenses incurred of \$4 million associated with the termination of the management agreement. Operating expenses decreased by \$32 million for fiscal year 2017, from fiscal year 2016, due to AGNC's management internalization.

Net Spread and Dollar Roll Income

The following table presents a summary of our net spread and dollar roll income, excluding estimated "catch-up" premium amortization, per diluted common share (a non-GAAP financial measure) and a reconciliation to our net interest income (the most comparable GAAP financial measure) for fiscal years 2018, 2017 and 2016 (dollars in millions):

	Fiscal Year		
	2018	2017	2016
Net interest income (GAAP measure)	\$776	\$769	\$927
TBA dollar roll income, net ¹	227	329	216
Interest rate swap periodic interest income (cost), net ¹	151	(127)	(255)
Dividend income from REIT equity securities ¹	3	1	2
Adjusted net interest and dollar roll income	1,157	972	890
Other operating income (expense):			
Management fee income	54	16	8
Less termination fee income from management agreement	(42)	—	—
Operating expenses	(100)	(73)	(105)
Less non-recurring write-off of intangible asset and other expenses associated with the termination of the MTGE management agreement	27	—	—
Less non-recurring transaction costs associated with the acquisition of AMM	—	—	9
Adjusted other operating income (expense), net	(61)	(57)	(88)
Net spread and dollar roll income	1,096	915	802
Dividend on preferred stock	36	32	28
Net spread and dollar roll income available to common stockholders (non-GAAP measure)	1,060	883	774
Estimated "catch-up" premium amortization (benefit) cost due to change in CPR forecast	(23)	37	10
Net spread and dollar roll income, excluding "catch-up" premium amortization, available to common stockholders (non-GAAP measure)	\$1,037	\$920	\$784
Weighted average number of common shares outstanding - basic	441.1	358.6	331.9
Weighted average number of common shares outstanding - diluted	441.4	358.7	331.9
Net spread and dollar roll income per common share - basic	\$2.40	\$2.46	\$2.33
Net spread and dollar roll income per common share - diluted	\$2.40	\$2.46	\$2.33
Net spread and dollar roll income, excluding "catch-up" premium amortization, per common share - basic	\$2.35	\$2.57	\$2.36
Net spread and dollar roll income, excluding "catch-up" premium amortization, per common share - diluted	\$2.35	\$2.56	\$2.36

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

Gain (Loss) on Investment Securities, Net

The following table is a summary of our net gain (loss) on investment securities for fiscal years 2018, 2017 and 2016 (in millions):

	Fiscal Year		
	2018	2017	2016
Gain (Loss) on Investment Securities, Net ¹			
Gain (loss) on sale of investment securities, net	\$(137)	\$(63)	\$109
Unrealized gain (loss) on investment securities measured at fair value through net income, net ²	(297)	(71)	(6)
Unrealized gain (loss) on investment securities measured at fair value through other comprehensive income, net	(598)	52	(370)
Total gain (loss) on investment securities, net	\$(1,032)	\$(82)	\$(267)

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

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

The following table is a summary of our gain (loss) on derivative instruments and other securities, net for fiscal years 2018, 2017 and 2016 (in millions):

	Fiscal Year		
	2018	2017	2016
Interest rate swap periodic interest income (cost), net	\$ 151	\$(127)	\$(255)
Realized gain (loss) on derivative instruments and other securities, net:			
TBA securities - dollar roll income, net	227	329	216
TBA securities - mark-to-market net gain (loss)	(592)	(150)	(114)
Payer swaptions	67	(13)	(30)
U.S. Treasury securities - long position	1	1	7
U.S. Treasury securities - short position	125	(68)	(85)
U.S. Treasury futures - short position	112	(9)	(12)
Interest rate swaps - termination fees and variation margin settlements, net	(44)	378	(1,145)
REIT equity securities	7	1	—
Other	—	3	8
Total realized gain (loss) on derivative instruments and other securities, net	(97)	472	(1,155)
Unrealized gain (loss) on derivative instruments and other securities, net:			
TBA securities - mark-to-market net gain (loss)	66	151	(161)
Interest rate swaps	33	(184)	1,003
Payer swaptions	23	(53)	27
U.S. Treasury securities - short position	(286)	(73)	219
U.S. Treasury futures - short position	(64)	9	7
Other	7	(2)	5
Total unrealized gain (loss) on derivative instruments and other securities, net	(221)	(152)	1,100
Total gain (loss) on derivative instruments and other securities, net	\$(167)	\$ 193	\$(310)

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

Estimated Taxable Income

For fiscal years 2018, 2017 and 2016, we had estimated taxable income available to common stockholders of \$490 million, \$191 million and \$260 million (or \$1.11, \$0.53 and \$0.78 per diluted common share), respectively. Income determined under GAAP differs from income determined under U.S. federal income tax rules because of both temporary and permanent differences in income and expense recognition. The primary differences are (i) unrealized gains and losses on derivative instruments and other securities marked-to-market in current income for GAAP purposes, but excluded from taxable income until realized or settled, (ii) timing differences, both temporary and potentially permanent, in the recognition of certain realized gains and losses and (iii) temporary differences related to the amortization of premiums and discounts on investments. Furthermore, our estimated taxable income is subject to potential adjustments up to the time of filing our appropriate tax returns, which occurs after the end of our fiscal year. The following is a reconciliation of our GAAP net income to our estimated taxable income for fiscal years 2018, 2017 and 2016 (dollars in millions, except per share amounts):

	Fiscal Year		
	2018	2017	2016
Net income	\$129	\$771	\$623
Estimated book to tax differences:			
Premium amortization, net	(51)	(9)	(46)
Realized gain/loss, net	(236)	(654)	1,034
Net capital loss/(utilization of net capital loss carryforward)	182	(95)	(232)
Unrealized (gain)/loss, net	518	223	(1,094)
Other	(16)	(13)	3
Total book to tax differences	397	(548)	(335)
Estimated REIT taxable income	526	223	288
Dividend on preferred stock	36	32	28
Estimated REIT taxable income available to common stockholders	\$490	\$191	\$260
Weighted average number of common shares outstanding - basic	441.1	358.6	331.9
Weighted average number of common shares outstanding - diluted	441.4	358.7	331.9
Estimated REIT taxable income per common share - basic and diluted	\$1.11	\$0.53	\$0.78
Beginning cumulative non-deductible net capital loss	\$357	\$452	\$684
Increase (decrease) in net capital loss carryforward ¹	(175)	(95)	(232)
Ending cumulative non-deductible net capital loss	\$182	\$357	\$452
Ending cumulative non-deductible net capital loss per common share	\$0.34	\$0.91	\$1.37

¹ Includes decrease in net capital loss carryforwards due to expiration of unutilized net capital loss carryforwards from prior years.

As of December 31, 2018, 2017 and 2016, we had distributed all our estimated taxable income for fiscal years 2018, 2017 and 2016, respectively. Accordingly, we do not expect to incur an income tax or excise tax liability on our 2018 taxable income, nor did we incur such liabilities on our 2017 and 2016 taxable income.

The following table summarizes dividends declared during fiscal years 2018, 2017 and 2016:

Quarter Ended	Dividends Declared per Share			
	Series A Preferred Stock	Series B Preferred Stock (Per Depository Share)	Series C Preferred Stock (Per Depository Share)	Common Stock
December 31, 2018	\$—	\$0.484375	\$ 0.43750	\$ 0.54
September 30, 2018	\$—	\$0.484375	\$ 0.43750	\$ 0.54
June 30, 2018	\$—	\$0.484375	\$ 0.43750	\$ 0.54
March 31, 2018	\$—	\$0.484375	\$ 0.43750	\$ 0.54
Total fiscal year 2018	\$—	\$ 1.937500	\$ 1.75000	\$ 2.16
December 31, 2017	\$—	\$0.484375	\$ 0.43750	\$ 0.54
September 30, 2017	\$0.33300	\$0.484375	\$ 0.25764	\$ 0.54
June 30, 2017	\$0.50000	\$0.484375	\$ —	\$ 0.54
March 31, 2017	\$0.50000	\$0.484375	\$ —	\$ 0.54
Total fiscal year 2017	\$ 1.33300	\$ 1.937500	\$ 0.69514	\$ 2.16
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

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March 31, 2016	\$0.50000	\$0.484375	\$—	\$ 0.60
Total fiscal year 2016	\$2.00000	\$ 1.937500	\$—	\$ 2.30

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LIQUIDITY AND CAPITAL RESOURCES

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

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

Debt Capital

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

	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
Mortgage Borrowings				
Repurchase agreements	\$75,717	91 %	\$50,296	75 %
Debt of consolidated variable interest entities, at fair value	275	— %	357	1 %
Total debt	75,992	91 %	50,653	76 %
Net TBA position, at cost	7,252	9 %	15,739	24 %
Total mortgage borrowings	\$83,244	100 %	\$66,392	100 %

Our tangible net book value "at risk" leverage was 9.0x and 8.1x as of December 31, 2018 and 2017, respectively, measured as the sum of our total mortgage borrowings and net payable / (receivable) for unsettled investment securities, divided by the sum of our total stockholders' equity adjusted to exclude goodwill and other intangible asset and investments in REIT equity securities.

Repurchase Agreements

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

As of December 31, 2018, we had \$75.7 billion of repurchase agreements outstanding used to fund acquisitions of investment securities with a weighted average interest rate of 2.79% and a weighted average remaining days-to-maturity of 49 days, compared \$50.3 billion, 1.57% and 116 days, respectively, as of December 31, 2017.

To limit our counterparty exposure, we diversify our funding across multiple counterparties and by counterparty region. As of December 31, 2018, we had master repurchase agreements with 46 financial institutions located throughout North America, Europe and Asia, including counterparties accessed through our wholly-owned captive broker-dealer subsidiary, BES. BES has direct access to bilateral and triparty funding, including the General Collateral Finance Repo service offered by the Fixed Income Clearing Corporation, or "FICC," which provides us greater depth and diversity of funding at favorable terms relative to traditional bilateral repurchase agreement funding. As of December 31, 2018, \$26.7 billion of our repurchase agreement funding was sourced through BES.

The table below includes a summary of our Agency RMBS repurchase agreement funding by number of repo counterparties and counterparty region as of December 31, 2018. For further details regarding our borrowings under repurchase agreements as of December 31, 2018, please refer to Notes 4 and 6 to our Consolidated Financial Statements in this Form 10-K.

December 31, 2018

Counter-Party Region	Number of Counter-Parties	Percent of Repurchase Agreement Funding
North America:		
FICC	1	33%
Other	26	44%
Total North America	27	77%
Europe	14	17%
Asia	5	6%
Total	46	100%

Amounts available to be borrowed under our repurchase agreements are dependent upon lender collateral requirements and the lender's determination of the fair value of the securities pledged as collateral, which fluctuates with changes in interest rates, credit quality and liquidity conditions within the investment banking, mortgage finance and real estate industries. In addition, our counterparties apply a "haircut" to our pledged collateral, which means our collateral is valued at slightly less than market value. This haircut reflects the underlying risk of the specific collateral and protects our counterparty against a change in its value, but conversely subjects us to counterparty credit risk and limits the amount we can borrow against our investment securities. Our master repurchase agreements do not specify the haircut; rather haircuts are determined on an individual repurchase transaction basis. Throughout fiscal year 2018, haircuts on our pledged collateral remained stable and, as of December 31, 2018, our weighted average haircut was approximately 4.3% of the value of our collateral, inclusive of collateral funded through BES. As of December 31, 2018, our maximum amount at risk (or the amount of our repurchase liabilities in excess of the value of collateral pledged) with any counterparty related to our repurchase agreements, excluding the FICC, was less than 4% of our tangible stockholders' equity, with our top five repo counterparties, excluding the FICC, representing less than 14% of our tangible stockholders' equity. As of December 31, 2018, approximately 8% of our tangible stockholder's equity was at risk with the FICC. We could be exposed to credit risk if the FICC or an FICC netting member defaults on its obligations. However, we believe that the risk is minimal due to the FICC's initial and daily mark-to-market margin requirements, guarantee funds and other resources that are available in the event of a default.

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

As of December 31, 2018, we had met all of our margin requirements and we had unrestricted cash and cash equivalents of \$0.9 billion and unpledged securities of approximately \$3.9 billion, including securities pledged to us and unpledged interests in our consolidated VIEs, available to meet margin calls on our repurchase agreements and other funding liabilities, derivative instruments and for other corporate purposes.

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

To help manage the adverse impact of interest rate changes on the value of our investment portfolio as well as our cash flows, we utilize an interest rate risk management strategy under which we use derivative financial instruments. In particular, we attempt to mitigate the risk of the cost of our variable rate liabilities increasing at a faster rate than the earnings of our long-term fixed rate assets during a period of rising interest rates. The primary derivative instruments that we use are interest rate swaps, interest rate swaptions, U.S. Treasury securities and U.S. Treasury futures contracts. Please refer to Notes 2 and 5 to our Consolidated Financial Statements in this Form 10-K for further details regarding our use of derivative instruments.

As with repurchase agreements, our derivative agreements typically require that we pledge/receive collateral to/from our counterparties. Our counterparties, or the central clearing agency, typically have the sole discretion to determine the value of the derivative instruments and the value of the collateral securing such instruments. In the event of a margin call, we must provide additional collateral generally on the same or next business day. We minimize counterparty credit risk associated with our derivative instruments by limiting our counterparties to registered central clearing exchanges and major financial institutions with acceptable credit ratings and by monitoring positions with individual counterparties. Excluding centrally cleared derivative instruments, as of December 31, 2018, our amount at risk with any counterparty related to our interest rate swap and swaption agreements was less than 1% of our stockholders' equity. In the case of centrally cleared derivative instruments, we could be exposed to credit risk if the exchange or a central clearing member defaults on its obligations. However, we believe that the risk is minimal due to initial and daily mark-to-market margin requirements, guarantee funds and other resources that are available in the event of a default.

TBA Dollar Roll Transactions

TBA dollar roll transactions used to finance the purchase of Agency RMBS represent a form of off-balance sheet financing accounted for as derivative instruments. (See Notes 2 and 5 to our Consolidated Financial Statements in this Form 10-K additional details on of our TBA transactions). Under certain market conditions, it may be uneconomical for us to roll our TBA contracts into future months and we may need to take or make physical delivery of the underlying securities. If we were required to take physical delivery to settle a long TBA contract, we would have to fund our total purchase commitment with cash or other financing sources and our liquidity position could be negatively impacted. As of December 31, 2018, we had a net long TBA position with a total market value of \$7.3 billion and a net carrying value of \$70 million recognized in derivative assets/(liabilities), at fair value, on our Consolidated Balance Sheets in this Form 10-K.

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

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

Bethesda Securities Regulatory Capital Requirements

BES is subject to regulations of the securities business that include but are not limited to trade practices, capital structure, recordkeeping and conduct of directors, officers and employees. As a self-clearing registered broker-dealer, BES is required to maintain minimum net regulatory capital as defined by SEC Rule 15c3-1 (the "Rule"). As of December 31, 2018, the minimum net capital required was \$0.3 million and BES had excess net capital of \$585.4 million. Regulatory capital in excess of the minimum required by the Rule is held to meet levels required by clearing organizations, the clearing bank and other repo counterparties.

Asset Sales and TBA Eligible Securities

We maintain a portfolio of highly liquid mortgage-backed securities. We may sell our Agency securities through the TBA market by delivering them into TBA contracts, subject to "good delivery" provisions promulgated by SIFMA. We may alternatively sell Agency securities that have more unique attributes on a specified basis when such securities trade at a premium over generic TBA securities or if the securities are not otherwise eligible for TBA delivery. Since the TBA market is the second most liquid market (after the U.S. Treasury market), maintaining a significant level of Agency securities eligible for TBA delivery enhances our liquidity profile and provides price support for our TBA eligible securities at or above generic TBA prices. As of December 31, 2018, approximately 93% of our fixed rate Agency RMBS portfolio was eligible for TBA delivery.

Equity Capital

To the extent we raise additional equity capital, we may use cash proceeds from such transactions to purchase additional investment securities, to make scheduled payments of principal and interest on our funding liabilities and/or for other general corporate purposes. There can be no assurance, however, that we will be able to raise additional equity capital at any particular time or on any particular terms. Furthermore, when the trading price of our common stock is significantly less than our estimate of our current tangible net book value per common share, among other conditions, we may repurchase shares of our common stock, subject to the provisions of a stock repurchase program in effect at such time.

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2018, we did not maintain relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance, or special purpose or variable interest entities, established to facilitate off-balance sheet arrangements or other contractually narrow or limited purposes. Additionally, as of December 31, 2018, we had not guaranteed obligations of unconsolidated entities or entered into a commitment or intent to provide funding to such entities.

AGGREGATE CONTRACTUAL OBLIGATIONS

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

	Fiscal Year					Total
	2019	2020	2021	2022	2023	
Repurchase agreements	\$72,892	\$2,200	\$625	\$ —	—	—\$75,717
Interest expense ¹	247	32	3	—	—	282
Total	\$73,139	\$2,232	\$628	\$ —	—	—\$75,999

¹ Interest expense is calculated based on the weighted average interest rates on our repurchase agreements as of December 31, 2018.

FORWARD-LOOKING STATEMENTS

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

Interest Rate Risk

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

Interest rates are highly sensitive to many factors, including fiscal and monetary policies and domestic and international economic and political considerations, as well as other factors beyond our control. Subject to maintaining our qualification as a REIT, we engage in a variety of interest rate management techniques to mitigate the influence of interest rate changes on our net interest income and fluctuations of our tangible net asset value. The principal

instruments that we use to hedge our interest rate risk are interest rate swaps, swaptions, U.S. Treasury securities and U.S. Treasury futures contracts. Our hedging techniques are highly complex and are partly based on assumed levels of prepayments of our assets. If prepayments are slower or faster than assumed, the maturity our investments will also differ from our expectations, which could reduce the effectiveness of our hedging strategies and may cause losses on such transactions and adversely affect our cash flow.

The severity of potential declines in our tangible net book value due to fluctuations in interest rates would depend on our asset, liability and hedge composition at the time, as well as the magnitude and duration of the interest rate change. Primary

measures of an instrument's price sensitivity to interest rate fluctuations are its duration and convexity. Duration measures the estimated percentage change in market value of an instrument that would be caused by a parallel change in short and long-term interest rates. The duration of our assets will vary with changes in interest rates and tends to increase when interest rates rise and decrease when interest rates fall. This "negative convexity" generally increases the interest rate exposure of our investment portfolio in excess of what is measured by duration alone.

We estimate the duration and convexity of our assets using both a third-party risk management system and market data. We review the duration estimates from the third-party model and may make adjustments based on our judgment to better reflect any unique characteristics and market trading conventions associated with certain types of securities. The table below quantifies the estimated changes in the fair value of our investment portfolio (including derivatives and other securities used for hedging purposes) and in our tangible net book value per common share as of December 31, 2018 and 2017 should interest rates go up or down by 50 and 100 basis points, assuming instantaneous parallel shifts in the yield curve and including the impact of both duration and convexity. All values in the table below are measured as percentage changes from the base interest rate scenario. The base interest rate scenario assumes interest rates and prepayment projections as of December 31, 2018 and 2017.

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

Interest Rate Sensitivity ^{1,2}

Change in Interest Rate	December 31, 2018		December 31, 2017	
	Estimated Change in Portfolio Market Value	Estimated Change in Tangible Net Book Value Per Common Share	Estimated Change in Portfolio Market Value	Estimated Change in Tangible Net Book Value Per Common Share
-100 Basis Points	-0.7%	-7.3%	-1.0%	-9.1%
-50 Basis Points	-0.1%	-1.0%	-0.2%	-1.9%
+50 Basis Points	-0.3%	-3.1%	-0.2%	-2.0%
+100 Basis Points	-0.9%	-9.3%	-0.7%	-6.6%

Derived from models that are dependent on inputs and assumptions provided by third parties, assumes there are no 1. changes in mortgage spreads and assumes a static portfolio. Actual results could differ materially from these estimates.

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

Prepayment Risk

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

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

to interest income for the impact of the cumulative difference in the effective yield.

Extension Risk

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

As of December 31, 2018 and 2017, our investment securities (excluding TBAs) had a weighted average projected CPR of 7.9% and 8.4%, respectively, and a weighted average yield of 3.31% and 2.89%, respectively. The table below presents estimated weighted average projected CPRs and yields for our investment securities should interest rates go up or down by 50 and 100 basis points.

Interest Rate Sensitivity ¹

Change in Interest Rate	December 31, 2018		December 31, 2017	
	Weighted Average Projected CPR	Weighted Average Asset Yield ²	Weighted Average Projected CPR	Weighted Average Asset Yield ²
-100 Basis Points	14.1%	3.15%	12.5%	2.65%
-50 Basis Points	10.3%	3.25%	9.8%	2.79%
+50 Basis Points	6.5%	3.33%	7.4%	2.93%
+100 Basis Points	5.7%	3.38%	6.9%	2.96%

¹ Derived from models that are dependent on inputs and assumptions provided by third parties and assumes a static portfolio. Actual results could differ materially from these estimates.

² Asset yield based on historical cost basis and does not include the impact of retroactive "catch-up" premium amortization adjustments due to changes in projected CPR.

Spread Risk

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

The table below quantifies the estimated changes in the fair value of our assets, net of hedges, and our tangible net book value per common share as of December 31, 2018 and 2017 should spreads widen or tighten by 10 and 25 basis points. The estimated impact of changes in spreads is in addition to our interest rate shock sensitivity included in the interest rate shock table above. The table below assumes a spread duration of 5.6 and 5.3 years as of December 31, 2018 and 2017, respectively, based on interest rates and prices as of such dates. However, our portfolio's sensitivity of mortgage spread changes will vary with changes in interest rates and in the size and composition of our portfolio. Therefore, actual results could differ materially from our estimates.

Spread Sensitivity ^{1,2}

Change in MBS Spread	December 31, 2018		December 31, 2017	
	Estimated Change in Portfolio Market Value	Estimated Change in Tangible Net Book Value Per Common Share	Estimated Change in Portfolio Market Value	Estimated Change in Tangible Net Book Value Per Common Share
-25 Basis Points	+1.4%	+14.3%	+1.3%	+12.6%
-10 Basis Points	+0.6%	+5.7%	+0.5%	+5.0%
+10 Basis Points	-0.6%	-5.7%	-0.5%	-5.0%
+25 Basis Points	-1.4%	-14.3%	-1.3%	-12.6%

1.

Spread sensitivity is derived from models that are dependent on inputs and assumptions provided by third parties, assumes there are no changes in interest rates and assumes a static portfolio. Actual results could differ materially from these estimates.

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

Liquidity Risk

Our liquidity risk principally arises from financing long-term fixed rate assets with shorter-term variable rate borrowings. As of December 31, 2018, we had unrestricted cash and cash equivalents of \$0.9 billion and unpledged securities of approximately \$3.9 billion available to meet margin calls on our funding liabilities and derivative contracts and for other corporate purposes. However, should the value of our collateral or the value of our derivative instruments suddenly decrease, margin calls relating to our funding liabilities and derivative agreements could increase, causing an adverse change in our liquidity position. Furthermore, there is no assurance that we will always be able to renew (or roll) our short-term funding liabilities. In addition, our counterparties

have the option to increase our haircuts (margin requirements) on the assets we pledge against our funding liabilities, thereby reducing the amount that can be borrowed against an asset even if they agree to renew or roll our funding liabilities. Significantly higher haircuts can reduce our ability to leverage our portfolio or even force us to sell assets, especially if correlated with asset price declines or faster prepayment rates on our assets.

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

Credit Risk

We may not receive full repayment of principal, interest or other remuneration related to credit sensitive instruments, such as investments in CRT and non-Agency securities. This risk of nonpayment is called credit risk. We are also exposed to credit risk in the event our derivative counterparties do not perform under the terms of our derivative agreements or in the event our repurchase agreement counterparties default on their obligations to resell the underlying collateral back to us at the end of the repo term.

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

There is no guarantee that our efforts to manage credit risk will be successful and we could suffer losses if credit performance is worse than our expectations or our counterparties default on their obligations. Excluding amounts cleared through a central clearing exchange, as of December 31, 2018, our maximum amount at risk with any counterparty related to our repurchase agreements was less than 4% of our tangible stockholders' equity and less than 1% of tangible stockholders' equity related to our interest rate swap and swaption agreements.

Item 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, 2018 and 2017 and fiscal years 2018, 2017 and 2016 have been audited by Ernst & Young LLP, an independent registered public accounting firm, who conducted their audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). The independent registered public accounting firm's responsibility is to express an opinion on these consolidated financial statements based on their audit. For further information refer to the Ernst & Young LLP audit opinion included in this Item 8 of our Annual Report.

Management's Report on Internal Control over Financial Reporting

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

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

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2018, 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, 2018. The effectiveness of our internal control over financial reporting as of December 31, 2018 has been audited by Ernst & Young LLP, our independent registered public accounting firm, as stated in their attestation report included in this Form 10-K.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of AGNC Investment Corp.

Opinion on Internal Control over Financial Reporting

We have audited AGNC Investment Corp.'s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, AGNC Investment Corp. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of AGNC Investment Corp. as of December 31, 2018 and 2017, 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, 2018, and the related notes, and our report dated February 22, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

a material effect on the financial statements.

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

/s/ Ernst & Young LLP

Tysons, Virginia
February 22, 2019

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of AGNC Investment Corp.

Opinion on Financial Statements

We have audited the accompanying consolidated balance sheets of AGNC Investment Corp. as of December 31, 2018 and 2017, 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, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AGNC Investment Corp. at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), AGNC Investment Corp.'s internal control over financial reporting as of December 31, 2018, 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 22, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

/s/ Ernst & Young LLP

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

Tysons, Virginia
February 22, 2019

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

	December 31,	
	2018	2017
Assets:		
Agency securities, at fair value (including pledged securities of \$78,619 and \$53,055, respectively)	\$82,291	\$55,506
Agency securities transferred to consolidated variable interest entities, at fair value (pledged securities)	436	662
Credit risk transfer securities, at fair value (including pledged securities of \$141 and \$0, respectively)	1,012	876
Non-Agency securities, at fair value (including pledged securities of \$45 and \$0, respectively)	548	36
U.S. Treasury securities, at fair value	46	—
REIT equity securities, at fair value	—	29
Cash and cash equivalents	921	1,046
Restricted cash	599	317
Derivative assets, at fair value	273	205
Receivable for investment securities sold (pledged securities)	489	—
Receivable under reverse repurchase agreements	21,813	10,961
Goodwill and other intangible asset, net	526	551
Other assets	287	187
Total assets	\$109,241	\$70,376
Liabilities:		
Repurchase agreements	\$75,717	\$50,296
Debt of consolidated variable interest entities, at fair value	275	357
Payable for investment securities purchased	1,204	95
Derivative liabilities, at fair value	84	28
Dividends payable	106	80
Obligation to return securities borrowed under reverse repurchase agreements, at fair value	21,431	10,467
Accounts payable and other liabilities	518	299
Total liabilities	99,335	61,622
Stockholders' equity:		
7.750% Series B Cumulative Redeemable Preferred Stock (aggregate liquidation preference of \$175)	169	169
7.000% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (aggregate liquidation preference of \$325)	315	315
Common stock - \$0.01 par value; 900 and 600 shares authorized, respectively; 536.3 and 391.3 shares issued and outstanding, respectively	5	4
Additional paid-in capital	13,793	11,173
Retained deficit	(3,433)	(2,562)
Accumulated other comprehensive loss	(943)	(345)
Total stockholders' equity	9,906	8,754
Total liabilities and stockholders' equity	\$109,241	\$70,376
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,		
	2018	2017	2016
Interest income:			
Interest income	\$1,949	\$1,293	\$1,321
Interest expense	1,173	524	394
Net interest income	776	769	927
Other gain (loss), net:			
Gain (loss) on sale of investment securities, net	(137)	(63)	109
Unrealized loss on investment securities measured at fair value through net income, net	(297)	(71)	(6)
Gain (loss) on derivative instruments and other securities, net	(167)	193	(310)
Management fee income	54	16	8
Total other gain (loss), net:	(547)	75	(199)
Expenses:			
Management fee expense	—	—	52
Compensation and benefits	45	42	19
Other operating expense	55	31	34
Total operating expense	100	73	105
Net income	129	771	623
Dividend on preferred stock	36	32	28
Issuance costs of redeemed preferred stock	—	6	—
Net income available to common stockholders	\$93	\$733	\$595
Net income	\$129	\$771	\$623
Other comprehensive income (loss):			
Unrealized gain (loss) on available-for-sale securities, net	(598)	52	(370)
Unrealized gain on derivative instruments, net	—	—	39
Other comprehensive income (loss)	(598)	52	(331)
Comprehensive income (loss)	(469)	823	292
Dividend on preferred stock	36	32	28
Issuance costs of redeemed preferred stock	—	6	—
Comprehensive income (loss) available (attributable) to common stockholders	\$(505)	\$785	\$264
Weighted average number of common shares outstanding - basic	441.1	358.6	331.9
Weighted average number of common shares outstanding - diluted	441.4	358.7	331.9
Net income per common share - basic	\$0.21	\$2.04	\$1.79
Net income per common share - diluted	\$0.21	\$2.04	\$1.79
See accompanying notes to consolidated financial statements.			

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

	8.000% Series A Cumulative Redeemable Preferred Stock	7.750% Series B Cumulative Redeemable Preferred Stock	7.000% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2015	\$ 167	\$ 169	\$ —	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	167	169	—	331.0	3	9,932	(2,518)	(397)	7,356
Net income	—	—	—	—	—	—	771	—	771
Other comprehensive income:									
Unrealized gain on available-for-sale securities, net	—	—	—	—	—	—	—	52	52
Stock-based compensation	—	—	—	—	—	4	—	—	4
Issuance of preferred stock	—	—	315	—	—	—	—	—	315
Redemption of preferred stock	(167)	—	—	—	—	—	(6)	—	(173)
Issuance of common stock	—	—	—	60.3	1	1,237	—	—	1,238
Preferred dividends declared	—	—	—	—	—	—	(32)	—	(32)
Common dividends declared	—	—	—	—	—	—	(777)	—	(777)
Balance, December 31, 2017	—	169	315	391.3	4	11,173	(2,562)	(345)	8,754
Net income	—	—	—	—	—	—	129	—	129
Other comprehensive loss:									
Unrealized loss on available-for-sale securities, net	—	—	—	—	—	—	—	(598)	(598)
Stock-based compensation	—	—	—	—	—	10	—	—	10
Issuance of common stock	—	—	—	145.0	1	2,610	—	—	2,611
Preferred dividends declared	—	—	—	—	—	—	(36)	—	(36)
Common dividends declared	—	—	—	—	—	—	(964)	—	(964)
Balance, December 31, 2018	\$ —	\$ 169	\$ 315	536.3	\$ 5	\$ 13,793	\$(3,433)	\$ (943)	\$ 9,906

See accompanying notes to consolidated financial statements.

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

	For the year ended December 31,		
	2018	2017	2016
Operating activities:			
Net income	\$ 129	\$ 771	\$ 623
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of premiums and discounts on mortgage-backed securities, net	331	378	400
Amortization of accumulated other comprehensive loss on interest rate swaps de-designated as qualifying hedges	—	—	39
Amortization of intangible assets	25	3	2
Stock-based compensation	6	4	1
(Gain) loss on sale of investment securities, net	137	63	(109)
Unrealized loss on investment securities measured at fair value through net income, net	297	71	6
(Gain) loss on derivative instruments and other securities, net	167	(193)	310
(Increase) decrease in other assets	(100)	82	34
Increase in accounts payable and other accrued liabilities	121	81	46
Net cash provided by operating activities	1,113	1,260	1,352
Investing activities:			
Purchases of Agency mortgage-backed securities	(42,586)	(35,920)	(20,836)
Purchases of credit risk transfer and non-Agency securities	(1,572)	(1,074)	(229)
Proceeds from sale of Agency mortgage-backed securities	8,132	18,701	18,030
Proceeds from sale of credit risk transfer and non-Agency securities	891	494	—
Principal collections on Agency mortgage-backed securities	7,170	6,869	8,114
Principal collections on credit risk transfer and non-Agency securities	15	5	23
Payments on U.S. Treasury securities	(10,829)	(11,756)	(4,483)
Proceeds from U.S. Treasury securities	21,308	14,557	10,393
Net payments on reverse repurchase agreements	(10,571)	(3,162)	(6,003)
Net proceeds from (payments on) derivative instruments	76	253	(1,292)
Purchase of AGNC Mortgage Management, LLC, net of cash acquired	—	—	(555)
Net proceeds from (payments on) other investing activity	30	(28)	39
Net cash (used in) provided by investing activities	(27,936)	(11,061)	3,201
Financing activities:			
Proceeds from repurchase arrangements	2,031,463	1,833,516	217,538
Payments on repurchase agreements	(2,006,042)	(1,710,778)	(221,434)
Proceeds from Federal Home Loan Bank advances	—	—	2,098
Payments on Federal Home Loan Bank advances	—	(3,037)	(2,814)
Payments on debt of consolidated variable interest entities	(78)	(104)	(135)
Net proceeds from preferred stock issuances	—	315	—
Payment for preferred stock redemption	—	(173)	—
Net proceeds from common stock issuances	2,611	1,238	—
Payment for common stock repurchases	—	—	(116)
Cash dividends paid	(974)	(795)	(799)
Net cash (used in) provided by financing activities	26,980	9,882	(5,662)
Net change in cash, cash equivalents and restricted cash	157	81	(1,109)
Cash, cash equivalents and restricted cash at beginning of period	1,363	1,282	2,391
Cash, cash equivalents and restricted cash at end of period	\$ 1,520	\$ 1,363	\$ 1,282

Supplemental disclosure to cash flow information:

Interest paid

\$1,090 \$474 \$332

See accompanying notes to consolidated financial statements.

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AGNC INVESTMENT CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization

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

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

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

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

Prior to July 1, 2016, we were externally managed by AGNC Management, LLC, our former manager. On July 1, 2016, we completed the acquisition of all the outstanding membership interests of AGNC Mortgage Management, LLC, the parent company of our former manager, from American Capital Asset Management, LLC ("AMM"), a wholly owned portfolio company of American Capital, Ltd.

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.

Adoption of Accounting Standard Updates

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

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.

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

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

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

Non-Agency RMBS and CMBS (together, "Non-Agency MBS") are backed by residential and commercial mortgage loans, respectively, packaged and securitized by a private institution, such as a commercial bank. Non-Agency MBS typically benefit from credit enhancements derived from structural elements, such as subordination, overcollateralization or insurance, but nonetheless carry a higher level of credit exposure than Agency RMBS. Accounting Standards Codification ("ASC") Topic 320, Investments—Debt and Equity Securities, requires that at the time of purchase, we designate a security as held-to-maturity, available-for-sale or trading, depending on our ability and intent to hold such security to maturity. Alternatively, we may elect the fair value option of accounting for securities pursuant to ASC Topic 825, Financial Instruments. Prior to fiscal year 2017, we primarily designated our investment securities as available-for-sale. On January 1, 2017, we began electing the fair value option of accounting for all investment securities acquired after fiscal year 2016. Consequently, all of our securities are reported at fair value on our consolidated balance sheet. Unrealized gains and losses on securities classified as available-for-sale are reported in accumulated other comprehensive income ("OCI"). Unrealized gains and losses on securities for which we elected the fair value option or are classified as trading are reported in net income through other gain (loss) during the period in which they occur. Upon the sale of a security designated as available-for-sale, we determine the cost of the security and the amount of unrealized gains or losses to reclassify out of accumulated OCI into earnings based on the specific identification method.

In our view, the election of the fair value option simplifies the accounting for investment securities and more appropriately reflects the results of our operations for a reporting period, as the fair value changes for these assets are presented in a manner consistent with the presentation and timing of the fair value changes of our derivative instruments.

We estimate the fair value of our investment securities based on prices provided by multiple third-party pricing services and non-binding dealer quotes (collectively "pricing sources"). These pricing sources use various valuation approaches, including market and income approaches, using "Level 2" inputs. The pricing sources primarily utilize a matrix pricing technique that interpolates the estimated fair value of our Agency RMBS based on observed quoted prices for forward contracts in the Agency RMBS "to-be-announced" market ("TBA securities") of the same coupon, maturity and issuer, adjusted to reflect the specific characteristics of the pool of mortgages underlying the Agency security, which may include maximum loan balance, loan vintage, loan-to-value ratio, geography and other characteristics as may be appropriate. The pricing sources may also utilize discounted cash flow model-derived pricing techniques to estimate the fair value of investment securities. Such models incorporate market-based discount

rate assumptions based on observable inputs such as recent trading activity, credit data, volatility statistics, benchmark interest rate curves and other market data that are current as of the measurement date and may include certain unobservable inputs, such as assumptions of future levels of prepayment, defaults and loss severities. We review the pricing estimates obtained from the pricing sources and perform procedures to validate their reasonableness. Refer to Note 8 for further discussion of fair value measurements.

We evaluate our investments designated as available-for-sale for other-than-temporary impairment ("OTTI") on at least a quarterly basis. The determination of whether a security is other-than-temporarily impaired may involve judgments and assumptions based on subjective and objective factors. When a security is impaired, an OTTI is considered to have occurred if any one of the following three conditions exists as of the financial reporting date: (i) we intend to sell the security (that is, a decision has been made to sell the security), (ii) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis or (iii) we do not expect to recover the security's amortized cost basis, even if we do not intend to sell the security and it is not more likely than not that we will be required to sell the security. A general allowance for unidentified impairments in a portfolio of securities is not permitted. If either of the first two conditions exists as of the financial reporting date, the entire amount of the impairment loss, if any, is recognized in earnings as a realized loss and the cost basis of the security is adjusted to its fair value. If the third condition exists, the OTTI is separated into (i) the amount relating to credit loss (the "credit component") and (ii) the amount relating to all other factors (the "non-credit components"). Only the credit component is recognized in earnings, with the non-credit components recognized in OCI. We did not recognize OTTI charges on our investment securities for fiscal years 2018, 2017 or 2016.

Interest Income

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

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

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

Repurchase Agreements

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

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

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

Derivative Instruments

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

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

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

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

Interest rate swap agreements

We use interest rate swaps to economically hedge the variable cash flows associated with our borrowings made under repurchase agreements. Under our interest rate swap agreements, we typically pay a fixed rate and receive a floating rate based on one or three-month LIBOR ("payer swaps") with terms up to 20 years. The majority of our interest rate swaps are centrally cleared through a registered commodities exchange. We value centrally cleared interest rate swaps using the daily settlement price, or fair value, determined by the clearing exchange based on a pricing model that references observable market inputs, including LIBOR, swap rates and the forward yield curve. Our centrally cleared swaps require that we post an "initial margin" amount determined by the clearing exchange, which is generally intended to be set at a level sufficient to protect the exchange from the interest rate swap's maximum estimated single-day price movement. We also exchange daily settlements of "variation margin" based upon changes in fair value, as measured by the exchange. Pursuant to rules governing central clearing activities, we recognize variation margin settlements as a direct reduction of the carrying value of the interest rate swap asset or liability.

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

Interest rate swaptions

We purchase interest rate swaptions to help mitigate the potential impact of larger, more rapid changes in interest rates on the performance of our investment portfolio. Interest rate swaptions provide us the option to enter into an interest

rate swap agreement for a predetermined notional amount, stated term and pay and receive interest rates in the future. Our interest rate swaption agreements are not subject to central clearing. The premium paid for interest rate swaptions is reported as an asset in our consolidated balance sheets. We estimate the fair value of interest rate swaptions using a combination of inputs from counterparty and third-party pricing models based on the fair value of the future interest rate swap that we have the option to enter into as well as the remaining length of time that we have to exercise the option, adjusted for non-performance risk, if any. The difference

between the premium paid and the fair value of the swaption is reported in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income. If a swaption expires unexercised, the realized loss on the swaption would be equal to the premium paid. If we sell or exercise a swaption, the realized gain or loss on the swaption would be equal to the difference between the cash or the fair value of the underlying interest rate swap and the premium paid.

TBA securities

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

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

U.S. Treasury securities

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

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. Prior to fiscal year 2016, we entered into transactions involving CMO trusts for which we determined we are the primary beneficiary given our level of control in the selection of Agency RMBS assets transferred to the CMO trust. 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. As of December 31, 2018 and 2017, debt of consolidated VIEs, at fair value, was \$275 million and \$357 million, respectively, had a weighted average interest rate of LIBOR plus 40 and 37 basis points, respectively, and an estimated weighted average life of 6.1 years and 5.7 years, respectively.

Stock-Based Compensation

We measure and recognize compensation expense for all stock-based payment awards made to employees and independent directors based on their fair values. Stock-based awards issued under our equity incentive plan include time-based and performance-based restricted stock unit awards ("RSU" and "PSU" awards, respectively). An RSU and PSU awards are an agreement to issue an equivalent number of shares of our common stock, plus any equivalent shares for dividends declared on our common stock, at the time the award vests, or later if distribution of such shares has been deferred beyond the vesting date. RSU awards vest over a specified service period. PSU awards vest over a specified service period subject to achieving long-term performance criteria.

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

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

Goodwill and Other Intangible Asset, Net

Goodwill is the cost of an acquisition in excess of the fair value of identified assets acquired and liabilities assumed and is recognized as an asset on our consolidated balance sheets. 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, 2018, we had \$526 million of goodwill and, as of December 31, 2017, we had \$526 million of goodwill and an intangible asset of \$25 million associated with our management of MTGE Investment Corp. ("MTGE") (Nasdaq: MTGE) reported in goodwill and other intangible asset, net in our accompanying consolidated balance sheets related to our acquisition of AMM. 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 analysis requires that we compare the carrying value of the identified reporting unit comprising the goodwill to the reporting unit's fair value. If the reporting units' carrying value is greater than its fair value, an impairment charge is recognized to the extent the carrying amount of the reporting unit exceeds its fair value. During fiscal years 2018, 2017 or 2016, we did not recognize a goodwill impairment charge. During fiscal year 2018, we wrote-off the unamortized intangible asset balance due to the sale of MTGE to a third-party and corresponding termination of its management agreement (see Note 12).

Loss Contingencies

We evaluate the existence of any pending or threatened litigation or other potential claims against the Company in accordance with ASC Topic 450, Contingencies, which requires that we assess the likelihood and range of potential outcomes of any such matters. We are the defendant in three stockholder derivative lawsuits alleging that certain of our current and former directors and officers breached fiduciary duties and wasted corporate assets relating to past renewals of the management agreement with our former external manager and the internalization of our management 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, 2018, we did not accrue a loss contingency related to these matters.

Recent Accounting Pronouncements

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

ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): ASU 2016-13 changes the impairment model for most financial assets and certain other instruments. 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 2016-2, Leases (Topic 842): ASU 2016-2 requires lessees to recognize virtually all their leases on the balance sheet by recording a right-of-use asset and a lease liability. The lease liability will be measured at the present value of lease payments and the right-of-use asset will be based on the lease liability value, subject to adjustments. Leases can be classified as either operating leases or finance leases. Operating leases will result in straight-line lease expense, while finance leases will result in front-loaded

expense. This guidance is effective for the Company on January 1, 2019. We have evaluated ASU 2016-2 and determined that it will not have a significant impact on our consolidated financial statements.

Note 3. Investment Securities

As of December 31, 2018 and 2017, our investment portfolio consisted of \$84.3 billion and \$57.1 billion of investment securities, at fair value, respectively, and \$7.3 billion and \$15.7 billion of TBA securities, at fair value, respectively. Our TBA position is reported at its net carrying value of \$70 million and \$3 million as of December 31, 2018 and 2017, respectively, in derivative assets / (liabilities) on our accompanying consolidated balance sheets. The net carrying value of our TBA position represents the difference between the fair value of the underlying Agency security in the TBA contract and the cost basis or the forward price to be paid or received for the underlying Agency security.

As of December 31, 2018 and 2017, our investment securities had a net unamortized premium balance of \$2.9 billion and \$2.7 billion, respectively, including interest and principal-only securities.

The following tables summarize our investment securities as of December 31, 2018 and 2017, excluding TBA securities, (dollars in millions). Details of our TBA securities as of each of the respective dates are included in Note 5.

Investment Securities	December 31, 2018		December 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Agency RMBS:				
Fixed rate	\$83,047	\$81,753	\$55,477	\$55,026
Adjustable rate	212	213	278	283
CMO	588	583	629	631
Interest-only and principal-only strips	172	178	213	228
Total Agency RMBS	84,019	82,727	56,597	56,168
Non-Agency RMBS	264	266	7	7
CMBS	280	282	28	29
CRT securities	1,006	1,012	834	876
Total investment securities	\$85,569	\$84,287	\$57,466	\$57,080

Investment Securities	December 31, 2018							Total
	Agency RMBS			Non-Agency				
	Fannie Mae	Freddie Mac	Ginnie Mae	RMBS	CMBS	CRT		
Available-for-sale securities:								
Par value	\$17,591	\$5,673	\$25	\$6	\$—	\$—		\$23,295
Unamortized discount	(10)	(2)	—	—	—	—		(12)
Unamortized premium	912	343	—	—	—	—		1,255
Amortized cost	18,493	6,014	25	6	—	—		24,538
Gross unrealized gains	4	2	1	—	—	—		7
Gross unrealized losses	(686)	(264)	—	—	—	—		(950)
Total available-for-sale securities, at fair value	17,811	5,752	26	6	—	—		23,595
Securities remeasured at fair value through earnings:								
Par value	39,453	18,428	—	268	281	968		59,398
Unamortized discount	(78)	(9)	—	(10)	(6)	—		(103)
Unamortized premium	1,055	638	—	—	5	38		1,736
Amortized cost	40,430	19,057	—	258	280	1,006		61,031
Gross unrealized gains	223	57	—	2	3	18		303
Gross unrealized losses	(386)	(243)	—	—	(1)	(12)		(642)

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Total securities remeasured at fair value through earnings	40,267	18,871	—	260	282	1,012	60,692
Total securities, at fair value	\$58,078	\$24,623	\$26	\$266	\$282	\$1,012	\$84,287
Weighted average coupon as of December 31, 2018	3.82	% 3.87	% 3.37%	3.83	% 4.58	% 5.86	% 3.86
Weighted average yield as of December 31, 2018 ¹	3.28	% 3.28	% 2.04%	4.22	% 4.68	% 5.16	% 3.31

65

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

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

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

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

CRT and Non-Agency Security Credit Ratings ¹	December 31, 2018			December 31, 2017		
	CRT	RMBS	CMBS	CRT	RMBS	CMBS
AAA	\$—	\$160	\$52	\$—	\$7	\$—
AA	—	17	152	—	—	—
A	17	33	15	1	—	—
BBB	25	43	53	34	—	29
BB	492	8	10	370	—	—
B	453	2	—	455	—	—
Not Rated	25	3	—	16	—	—
Total	\$1,012	\$266	\$282	\$876	\$7	\$29

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

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

average coupons ranging from 3.8% to 4.8%. As of 2017, our CRT securities had floating rate coupons ranging from 3.9% to 8.5%, referenced to loans originated between 2012 and 2017 with weighted average coupons ranging from 3.6% to 4.4%.

The actual maturities of our investment securities are generally shorter than their stated contractual maturities. Actual maturities are affected by the contractual lives of the underlying mortgages, periodic contractual principal payments and principal prepayments. As of December 31, 2018 and 2017, the weighted average expected constant prepayment rate ("CPR") over the remaining life of our aggregate investment portfolio was 7.9% and 8.4%, respectively. Our estimates can differ materially for different securities and thus our individual holdings have a wide range of projected CPRs. The following table summarizes our investments as of December 31, 2018 and 2017 according to their estimated weighted average life classification (dollars in millions):

Estimated Weighted Average Life of Investment Securities	December 31, 2018				December 31, 2017			
	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	\$1,690	\$ 1,716	3.99%	2.64%	\$2,712	\$ 2,693	3.90%	2.67%
> 3 years and ≤ 5 years	5,518	5,586	3.35%	2.73%	7,499	7,518	3.31%	2.39%
> 5 years and ≤10 years	72,503	73,588	3.92%	3.37%	45,977	46,398	3.75%	2.95%
> 10 years	4,576	4,679	3.57%	3.30%	892	857	4.87%	4.74%
Total	\$84,287	\$ 85,569	3.86%	3.31%	\$57,080	\$ 57,466	3.71%	2.89%

The following table presents the gross unrealized loss and fair values of securities classified as available-for-sale by length of time that such securities have been in a continuous unrealized loss position as of December 31, 2018 and 2017 (in millions):

Securities Classified as Available-for-Sale	Unrealized Loss Position For					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2018	\$4,783	\$ (72)	\$18,231	\$ (878)	\$23,014	\$ (950)
December 31, 2017	\$3,582	\$ (15)	\$20,577	\$ (451)	\$24,159	\$ (466)

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

Gains and Losses on Sale of Investment Securities

The following table is a summary of our net gain (loss) from the sale of investment securities for fiscal years 2018, 2017 and 2016 by investment classification of accounting (in millions):

Investment Securities	Fiscal Year 2018			Fiscal Year 2017			Fiscal Year 2016		
	Available-for-Sale Securities ²	Fair Value Option Securities	Total	Available-for-Sale Securities ²	Fair Value Option Securities	Total	Available-for-Sale Securities ²	Fair Value Option Securities	Total
Investment securities sold, at cost	\$(4,306)	\$(5,344)	\$(9,650)	\$(6,324)	\$(12,913)	\$(19,237)	\$(17,907)	—	\$(17,907)
Proceeds from investment securities sold ¹	4,227	5,286	9,513	6,241	12,933	19,174	18,016	—	18,016
Net gain (loss) on sale of investment securities	\$(79)	\$(58)	\$(137)	\$(83)	\$20	\$(63)	\$109	\$	-\$109
Gross gain on sale of investment securities	\$6	\$16	\$22	\$16	\$48	\$64	\$123	\$	-\$123
Gross loss on sale of investment securities	(85)	(74)	(159)	(99)	(28)	(127)	(14)	—	(14)
Net gain (loss) on sale of investment securities	\$(79)	\$(58)	\$(137)	\$(83)	\$20	\$(63)	\$109	\$	-\$109

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

2. See Note 9 for a summary of changes in accumulated OCI.

Consolidated Variable Interest Entities

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

Note 4. Repurchase and Reverse Repurchase Agreements

Repurchase Agreements

We pledge our securities as collateral under our borrowings structured as repurchase agreements with financial institutions. Interest rates on our borrowings are generally based on LIBOR plus or minus a margin and amounts available to be borrowed are dependent upon the fair value of the securities pledged as collateral, which fluctuates with changes in interest rates, type of security and liquidity conditions within the banking, mortgage finance and real estate industries. If the fair value of our pledged securities declines, lenders will typically require us to post additional collateral or pay down borrowings to re-establish agreed upon collateral requirements, referred to as "margin calls." Similarly, if the fair value of our pledged securities increases, lenders may release collateral back to us. As of December 31, 2018, we had met all margin call requirements. For additional information regarding our pledged assets, please refer to Note 6.

As of December 31, 2018 and 2017, we had \$75.7 billion and \$50.3 billion, respectively, of repurchase agreements outstanding used to fund our investment portfolio. The terms and conditions of our repurchase agreements are typically negotiated on a transaction-by-transaction basis. Our repurchase agreements with original maturities greater than one year have floating interest rates based on an index plus or minus a fixed spread. The following table summarizes our borrowings under repurchase agreements by their remaining maturities as of December 31, 2018 and 2017 (dollars in millions):

Remaining Maturity	December 31, 2018			December 31, 2017		
	Repurchase Agreement	Weighted Average Interest Rate	Weighted Average Days to Maturity	Repurchase Agreement	Weighted Average Interest Rate	Weighted Average Days to Maturity
≤ 1 month	\$48,533	2.88 %	9	\$19,771	1.59 %	11
> 1 to ≤ 3 months	20,991	2.57 %	56	16,150	1.50 %	50
> 3 to ≤ 6 months	2,218	2.65 %	167	7,287	1.50 %	130
> 6 to ≤ 9 months	200	3.19 %	208	2,361	1.66 %	225
> 9 to ≤ 12 months	950	2.80 %	279	202	1.64 %	297
> 12 to ≤ 24 months	2,200	2.91 %	438	1,700	1.84 %	468
> 24 to ≤ 36 months	625	3.11 %	776	2,200	1.80 %	803
> 36 to ≤ 48 months	—	— %	—	625	1.90 %	1,141
Total	\$75,717	2.79 %	49	\$50,296	1.57 %	116

As of December 31, 2018 and 2017, \$19.5 billion and \$5.3 billion, respectively, of our repurchase agreements had a remaining maturity of one business day and none of our repurchase agreements were due on demand. As of December 31, 2018, we had \$10.7 billion of forward commitments to enter into repurchase agreements, with a weighted average forward start date of 9 days and a weighted average interest rate of 2.90%. As of December 31, 2018 and 2017, 35% and 33%, respectively, of our repurchase agreement funding was sourced through our wholly-owned captive broker-dealer subsidiary, Bethesda Securities, LLC ("BES"). Amounts sourced through BES include funding from the General Collateral Finance Repo service ("GCF Repo") offered by the Fixed Income Clearing Corporation ("FICC"), which totaled 33% and 30% of our repurchase agreement funding outstanding as of December 31, 2018 and 2017, respectively.

Reverse Repurchase Agreements

As of December 31, 2018 and 2017, we had \$21.8 billion and \$11.0 billion, respectively, of reverse repurchase agreements outstanding used primarily to borrow securities to cover short sales of U.S. Treasury securities, for which we had associated obligations to return borrowed securities at fair value of \$21.4 billion and \$10.5 billion, respectively. As of December 31, 2018 and 2017, \$4.5 billion and \$2.7 billion, respectively, of our reverse repurchase agreements were with the FICC sourced through BES.

Note 5. Derivative and Other Hedging Instruments

We hedge a portion of our interest rate risk by entering into interest rate swaps, interest rate swaptions and U.S. Treasury securities and U.S. Treasury futures contracts, primarily through short sales. We may also utilize TBA securities, options and other types of derivative instruments to hedge a portion of our risk. For additional information regarding our derivative instruments and our overall risk management strategy, please refer to the discussion of derivative and other hedging instruments in Note 2.

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

The table below summarizes fair value information about our derivative and other hedging instrument assets/(liabilities) as of December 31, 2018 and 2017 (in millions):

Derivative and Other Hedging Instruments	Balance Sheet Location	December 31,	
		2018	2017
Interest rate swaps	Derivative assets, at fair value	\$126	\$81
Swaptions	Derivative assets, at fair value	37	75
TBA securities	Derivative assets, at fair value	110	30
U.S. Treasury futures - short	Derivative assets, at fair value	—	19
Total derivative assets, at fair value		\$273	\$205
Interest rate swaps	Derivative liabilities, at fair value	\$—	\$(1)
TBA securities	Derivative liabilities, at fair value	(40)	(27)
U.S. Treasury futures - short	Derivative liabilities, at fair value	(44)	—
Total derivative liabilities, at fair value		\$(84)	\$(28)
U.S. Treasury securities - long	U.S. Treasury securities, at fair value	\$46	\$—
U.S. Treasury securities - short	Obligation to return securities borrowed under reverse repurchase agreements, at fair value	(21,431)	(10,467)
Total U.S. Treasury securities, net at fair value		\$(21,385)	\$(10,467)

The following tables summarize certain characteristics of our derivative and other hedging instruments outstanding as of December 31, 2018 and 2017 (dollars in millions):

Interest Rate Swaps	December 31, 2018				December 31, 2017			
	Notional Amount ¹	Average Fixed Pay Rate ²	Average Receive Rate	Average Maturity (Years)	Notional Amount ¹	Average Fixed Pay Rate ²	Average Receive Rate	Average Maturity (Years)
≤ 3 years	\$19,900	1.63%	2.62%	1.3	\$21,025	1.40%	1.46%	1.5
> 3 to ≤ 5 years	8,425	2.06%	2.61%	4.0	6,825	1.82%	1.43%	4.1
> 5 to ≤ 7 years	7,875	2.66%	2.66%	6.1	5,775	2.02%	1.44%	5.9
> 7 to ≤ 10 years	10,550	2.36%	2.64%	8.8	6,650	2.10%	1.42%	9.1
> 10 years	4,875	2.77%	2.63%	11.6	3,425	2.49%	1.45%	12.9
Total	\$51,625	2.11%	2.63%	5.0	\$43,700	1.74%	1.44%	4.5

¹ As of December 31, 2018 and 2017, notional amount includes forward starting swaps of \$5.7 billion and \$4.6 billion, respectively, with an average forward start date of 0.5 and 0.3 years, respectively.

² Average fixed pay rate includes forward starting swaps. Excluding forward starting swaps, the average fixed pay rate was 1.98% and 1.68% as of December 31, 2018 and 2017, respectively.

Swaptions Current Option Expiration Date	Option			Underlying Payer Swap		Average Receive Rate (LIBOR)	Average Term (Years)
	Cost Basis	Fair Value	Average Months to Current Option Expiration Date ¹	Notional Amount	Average Fixed Pay Rate		
December 31, 2018							
≤ 1 year	\$80	\$ 23	4	\$3,000	2.96%	3M	7.0
> 1 year ≤ 2 years	18	14	18	500	2.78%	3M	10.0
Total	\$98	\$ 37	6	\$3,500	2.93%	3M	7.4
December 31, 2017							
≤ 1 year	\$118	\$ 46	7	\$5,100	2.71%	3M	8.8
> 1 year ≤ 2 years	23	16	18	1,050	2.71%	3M	8.7
> 2 year ≤ 3 years	18	13	30	500	2.78%	3M	10.0
Total	\$159	\$ 75	10	\$6,650	2.72%	3M	8.9

As of December 31, 2018 and 2017, ≤ 1 year notional amount includes \$700 million of Bermudan swaptions where 1. the options may be exercised on predetermined dates up to their final exercise date, which is six months prior to the underlying swaps' maturity date.

U.S. Treasury Securities Maturity	December 31, 2018			December 31, 2017		
	Face Amount (Short)	Cost Basis ¹	Fair Value	Face Amount (Short)	Cost Basis ¹	Fair Value
5 years	\$(703)	\$(706)	\$(713)	\$(288)	\$(286)	\$(283)
7 years	(14,357)	(14,325)	(14,410)	(6,131)	(6,106)	(6,029)
10 years	(6,240)	(6,224)	(6,262)	(4,280)	(4,230)	(4,155)
Total U.S. Treasury securities	\$(21,300)	\$(21,255)	\$(21,385)	\$(10,699)	\$(10,622)	\$(10,467)

As of December 31, 2018 and 2017, U.S. Treasury securities had a weighted average yield of 2.66% and 2.12%, respectively.

U.S. Treasury Futures Maturity	December 31, 2018				December 31, 2017			
	Notional Amount - Long (Short)	Cost Basis	Fair Value	Net Carrying Value ¹	Notional Amount - Long (Short)	Cost Basis	Fair Value	Net Carrying Value ¹
5 years	\$—	\$—	\$—	\$ —	\$(730)	\$(852)	\$(848)	\$ 4
10 years	(1,650)	(1,969)	(2,013)	(44)	(2,180)	(2,718)	(2,703)	15
Total U.S. Treasury futures	\$(1,650)	\$(1,969)	\$(2,013)	\$(44)	\$(2,910)	\$(3,570)	\$(3,551)	\$ 19

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

TBA Securities by Coupon	December 31, 2018				December 31, 2017			
	Notional Amount - Long (Short)	Cost Basis	Fair Value	Net Carrying Value ¹	Notional Amount - Long (Short)	Cost Basis	Fair Value	Net Carrying Value ¹
15-Year TBA securities:								
2.5%	\$—	\$—	\$—	\$ —	\$1,373	\$1,372	\$1,370	\$ (2)
3.0%	567	557	566	9	3,161	3,225	3,217	(8)
3.5%	1,706	1,708	1,726	18	414	428	428	—
4.0%	1,350	1,370	1,381	11	—	—	—	—
Total 15-Year TBA securities	3,623	3,635	3,673	38	4,948	5,025	5,015	(10)
30-Year TBA securities:								
3.0%	1,028	981	1,003	22	4,317	4,303	4,312	9
3.5%	(2,979)	(2,943)	(2,977)	(34)	3,932	4,027	4,034	7
4.0%	3,030	3,073	3,089	16	2,338	2,449	2,446	(3)
≥ 4.5%	2,450	2,506	2,534	28	(61)	(65)	(65)	—
Total 30-Year TBA securities, net	3,529	3,617	3,649	32	10,526	10,714	10,727	13
Total TBA securities, net	\$7,152	\$7,252	\$7,322	\$ 70	\$15,474	\$15,739	\$15,742	\$ 3

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

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

The following table summarizes changes in our derivative and other hedge portfolio and their effect on our consolidated statements of comprehensive income for fiscal years 2018, 2017 and 2016 (in millions):

Derivative and Other Hedging Instruments	Beginning Notional Amount	Additions	Settlement, Termination, Expiration or Exercise	Ending Notional Amount	Gain/(Loss) on Derivative Instruments and Other Securities, Net ¹
Fiscal Year 2018:					
TBA securities, net	\$ 15,474	194,534	(202,856)	\$ 7,152	\$ (299)
Interest rate swaps	\$ 43,700	14,350	(6,425)	\$ 51,625	140
Payer swaptions	\$ 6,650	1,250	(4,400)	\$ 3,500	90
U.S. Treasury securities - short position	\$ (10,699)	(19,278)	8,632	\$ (21,345)	(161)
U.S. Treasury securities - long position	\$ —	1,949	(1,904)	\$ 45	1
U.S. Treasury futures contracts - short position	\$ (2,910)	(7,859)	9,119	\$ (1,650)	48
					\$ (181)
Fiscal Year 2017:					
TBA securities, net	\$ 10,916	237,601	(233,043)	\$ 15,474	\$ 330
Interest rate swaps	\$ 37,175	14,825	(8,300)	\$ 43,700	67
Payer swaptions	\$ 1,200	6,450	(1,000)	\$ 6,650	(66)
U.S. Treasury securities - short position	\$ (8,061)	(14,030)	11,392	\$ (10,699)	(141)
U.S. Treasury securities - long position	\$ 189	404	(593)	\$ —	1
U.S. Treasury futures contracts - short position	\$ (1,810)	(11,340)	10,240	\$ (2,910)	—
					\$ 191
Fiscal Year 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)
Payer swaptions	\$ 2,150	500	(1,450)	\$ 1,200	(3)
U.S. Treasury securities - short position	\$ (1,714)	(9,884)	3,537	\$ (8,061)	7
U.S. Treasury securities - long position	\$ 25	961	(797)	\$ 189	134
U.S. Treasury futures contracts - short position	\$ (1,860)	(7,840)	7,890	\$ (1,810)	(5)
					\$ (323)

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

Note 6. Pledged Assets

Our funding agreements require us to fully collateralize our obligations under the agreements based upon our counterparties' collateral requirements and their determination of the fair value of the securities pledged as collateral, which fluctuates with changes in interest rates, credit quality and liquidity conditions within the investment banking, mortgage finance and real estate industries. Our derivative contracts similarly require us to fully collateralize our obligations under such agreements, which will vary over time based on similar factors as well as our counterparties' determination of the value of the derivative contract. We are typically required to post initial margin upon execution of derivative transactions, such as under our interest rate swap agreements and TBA contracts, and subsequently post or receive variation margin based on daily fluctuations in fair value. Our prime brokerage agreements, pursuant to which we receive custody and settlement services, and the clearing organizations utilized by our wholly-owned captive broker-dealer subsidiary, Bethesda Securities, LLC, also require that we post minimum daily clearing

deposits. If we breach our collateral requirements, we will be required to fully settle our obligations under the agreements, which could include a forced liquidation of our pledged collateral.

Our counterparties also apply a "haircut" to our pledged collateral, which means our collateral is valued at slightly less than market value and limits the amount we can borrow against our securities. This haircut reflects the underlying risk of the specific collateral and protects our counterparty against a change in its value. Our agreements do not specify the haircut; rather haircuts are determined on an individual transaction basis. Consequently, our funding agreements and derivative contracts expose us to credit risk relating to potential losses that could be recognized if our counterparties fail to perform their obligations under such agreements. We minimize this risk by limiting our counterparties to major financial institutions with acceptable credit ratings or

to registered clearinghouses and U.S. government agencies, and we monitor our positions with individual counterparties. In the event of a default by a counterparty, we may have difficulty obtaining our assets pledged as collateral to such counterparty and may not receive payments provided for under the terms of our derivative agreements. In the case of centrally cleared instruments, we could be exposed to credit risk if the central clearing agency or a clearing member defaults on its respective obligation to perform under the contract. However, we believe that the risk is minimal due to the clearing exchanges' initial and daily mark-to-market margin requirements, clearinghouse guarantee funds and other resources that are available in the event of a clearing member default. As of December 31, 2018, our maximum amount at risk with any counterparty other than the Fixed Income Clearing Corporation related to our repurchase agreements was less than 4% of our tangible stockholders' equity. As of December 31, 2018, approximately 8% of our tangible stockholder's equity was at risk with the Fixed Income Clearing Corporation. Equity at risk is defined as the net carrying value of securities pledged under repurchase agreements, including accrued interest plus any cash or assets on deposit to secure the repurchase obligation, less the amount of the repurchase liability, including accrued interest.

Our International Swaps and Derivatives Association ("ISDA") Master Agreements contain a cross default provision under which a default under the terms of certain of our other indebtedness in excess of certain thresholds causes an event of default under the ISDA Master Agreement. Threshold amounts vary by lender. Following an event of default, we could be required to settle our obligations under the agreements. Additionally, under certain of our ISDA Master Agreements, we could be required to settle our obligations under the agreements if we fail to maintain certain minimum stockholders' equity thresholds or our REIT status or if we fail to comply with limits on our leverage up to certain specified levels. As of December 31, 2018, the fair value of additional collateral that could be required to be posted as a result of the credit-risk-related contingent features being triggered was not material to our financial statements.

Assets Pledged to Counterparties

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

Assets Pledged to Counterparties ¹	December 31, 2018				
	Repurchase Agreements ²	Debt of Consolidated VIEs	Derivative Agreements	Prime Broker Agreements ³	Total
Agency RMBS - fair value	\$78,997	\$ 436	\$ 174	\$ 133	\$79,740
CRT - fair value	141	—	—	—	141
Non-Agency - fair value	45	—	—	—	45
U.S. Treasury securities - fair value	437	—	—	—	437
Accrued interest on pledged securities	246	1	1	—	248
Restricted cash and cash equivalents	77	—	522	—	599
Total	\$79,943	\$ 437	\$ 697	\$ 133	\$81,210
Assets Pledged to Counterparties ¹	December 31, 2017				
	Repurchase Agreements ²	Debt of Consolidated VIEs	Derivative Agreements	Prime Broker Agreements ³	Total
Agency RMBS - fair value	\$52,497	\$ 662	\$ 221	\$ 519	\$53,899
U.S. Treasury securities - fair value	113	—	72	—	185
Accrued interest on pledged securities	153	2	1	2	158
Restricted cash and cash equivalents	35	—	281	1	317
Total	\$52,798	\$ 664	\$ 575	\$ 522	\$54,559

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

Securities transferred to our consolidated VIEs can only be used to settle the obligations of each respective VIE. However, we may pledge our retained interests in our consolidated VIEs as collateral under our repurchase agreements and derivative contracts. Please refer to Note 3 for additional information regarding our consolidated VIEs.

The following table summarizes our securities pledged as collateral under our repurchase agreements by the remaining maturity of our borrowings, including securities pledged related to sold but not yet settled securities, as of December 31, 2018 and 2017 (in millions). For the corresponding borrowings associated with the following amounts and the interest rates thereon, refer to Note 4.

Securities Pledged by Remaining Maturity of Repurchase Agreements ^{1,2}	December 31, 2018			December 31, 2017		
	Fair Value of Pledged Securities	Amortized Cost of Pledged Securities	Accrued Interest on Pledged Securities	Fair Value of Pledged Securities	Amortized Cost of Pledged Securities	Accrued Interest on Pledged Securities
≤ 30 days	\$49,944	\$ 50,654	\$ 156	\$20,162	\$ 20,313	\$ 59
> 30 and ≤ 60 days	14,586	14,810	46	12,950	13,061	38
> 60 and ≤ 90 days	7,770	7,843	24	4,000	4,013	11
> 90 days	6,882	7,079	21	15,385	15,512	45
Total	\$79,182	\$ 80,386	\$ 247	\$52,497	\$ 52,899	\$ 153

¹ Includes \$163 million and \$182 million of retained interests in our consolidated VIEs pledged as collateral under repurchase agreements as of December 31, 2018 and 2017, respectively.

² December 31, 2018 amounts exclude \$437 million of repledged U.S. Treasury securities received as collateral from counterparties.

Assets Pledged from Counterparties

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

Assets Pledged to AGNC ¹	December 31, 2018				December 31, 2017			
	Reverse Repurchase Agreements	Derivative Agreements	Repurchase Agreements	Total	Reverse Repurchase Agreements	Derivative Agreements	Repurchase Agreements	Total
U.S. Treasury securities - fair value	\$21,876	\$ 35	\$ 37	\$21,948	\$10,853	\$ —	\$ —	\$10,853
Cash	—	129	—	129	—	82	—	82
Total	\$21,876	\$ 164	\$ 37	\$22,077	\$10,853	\$ 82	\$ —	\$10,935

¹ Includes repledged collateral.

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

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

Offsetting Assets and Liabilities

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

	Offsetting of Financial and Derivative Assets					
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets	Collateral Received	Net Amount
				Financial Instruments ²		
December 31, 2018						
Interest rate swap and swaption agreements, at fair value ¹	\$ 163	\$ —	\$ 163	\$ —	\$(158)	\$ 5
TBA securities, at fair value	110	—	110	(40)	—	70
Receivable under reverse repurchase agreements	21,813	—	21,813	(17,236)	(4,575)	2
Total	\$ 22,086	\$ —	\$ 22,086	\$(17,276)	\$(4,733)	\$ 77
December 31, 2017						
Interest rate swap and swaption agreements, at fair value ¹	\$ 156	\$ —	\$ 156	\$(1)	\$(82)	\$ 73
TBA securities, at fair value	30	—	30	(22)	—	8
Receivable under reverse repurchase agreements	10,961	—	10,961	(9,682)	(1,279)	—
Total	\$ 11,147	\$ —	\$ 11,147	\$(9,705)	\$(1,361)	\$ 81
	Offsetting of Financial and Derivative Liabilities					
	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
				Financial Instruments		
December 31, 2018						
Interest rate swap agreements, at fair value ¹	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
TBA securities, at fair value	40	—	40	(40)	—	—
Repurchase agreements	75,717	—	75,717	(17,236)	(58,481)	—
Total	\$ 75,757	\$ —	\$ 75,757	\$(17,276)	\$(58,481)	\$ —
December 31, 2017						
Interest rate swap agreements, at fair value ¹	\$ 1	\$ —	\$ 1	\$(1)	\$ —	\$ —
TBA securities, at fair value	27	—	27	(22)	(5)	—
Repurchase agreements and FHLB advances	50,296	—	50,296	(9,682)	(40,614)	—
Total	\$ 50,324	\$ —	\$ 50,324	\$(9,705)	\$(40,619)	\$ —

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

Includes cash and securities pledged / received as collateral, at fair value. Amounts include repledged collateral.

² Amounts presented are limited to collateral pledged sufficient to reduce the net amount to zero for individual counterparties, as applicable.

Note 7. Fair Value Measurements

We determine the fair value of our financial instruments based on our estimate of the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. We typically obtain price estimates from multiple third-party pricing services and dealers or, if applicable, the clearing exchange (see Note 2 for further details.) We utilize a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels of valuation hierarchy are defined as follows:

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

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

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

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

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

The validation procedures described above also influence our determination of the appropriate fair value measurement categorization. The following table provides a summary of our assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2018 and 2017 based on their categorization within the valuation hierarchy (in millions). There were no transfers between valuation hierarchy levels during the periods presented.

	December 31, 2018			December 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:						
Agency securities	\$—	\$82,291	\$—	\$—	\$55,506	\$—
Agency securities transferred to consolidated VIEs	—	436	—	—	662	—
Credit risk transfer securities	—	1,012	—	—	876	—
Non-Agency securities	—	548	—	—	36	—
U.S. Treasury securities	46	—	—	—	—	—
REIT equity securities	—	—	—	29	—	—
Interest rate swaps	—	126	—	—	81	—
Swaptions	—	37	—	—	75	—
TBA securities	—	110	—	—	30	—
U.S. Treasury futures	—	—	—	19	—	—
Total	\$46	\$84,560	\$—	—\$48	\$57,266	\$—
Liabilities:						
Debt of consolidated VIEs	\$—	\$275	\$—	\$—	\$357	\$—
Obligation to return U.S. Treasury securities borrowed under reverse repurchase agreements	21,431	—	—	10,467	—	—
Interest rate swaps	—	—	—	—	1	—
TBA securities	—	40	—	—	27	—
U.S. Treasury futures	(44)	—	—	—	—	—
Total	\$21,387	\$315	\$—	—\$10,467	\$385	\$—

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

these instruments using "Level 1" or "Level 2" inputs.

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Note 8. Net Income Per Common Share

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

	Fiscal Year		
	2018	2017	2016
Weighted average number of common shares outstanding - basic	441.1	358.6	331.9
Unvested restricted stock units and performance share units	0.3	0.1	—
Weighted average number of common shares outstanding - diluted	441.4	358.7	331.9
Net income available to common stockholders	\$93	\$733	\$595
Net income per common share - basic	\$0.21	\$2.04	\$1.79
Net income per common share - diluted	\$0.21	\$2.04	\$1.79

Note 9. Stockholders' Equity

Preferred Stock

Pursuant to our amended and restated certificate of incorporation, we are authorized to designate and issue up to 10.0 million shares of preferred stock in one or more classes or series. As of December 31, 2017 and December 31, 2018, 8,050 shares were designated as 7.750% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock") and 13,800 shares were designated as 7.00% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock ("Series C Preferred Stock"). Shares of Series B and Series C Preferred Stock are represented by depositary shares equal to 1/1000 interest in each share of Series B and Series C Preferred Stock, respectively. As of December 31, 2017 and December 31, 2018, we had 7,000 shares of Series B Preferred Stock and 13,000 shares of Series C Preferred Stock outstanding (represented by 7.0 million Series B depositary shares and 13.0 million Series C depositary shares outstanding, respectively) and 9,980,000 of authorized but unissued shares of preferred stock. Holders of depositary shares underlying our Series B Preferred Stock are entitled to receive cumulative cash dividends at a rate of 7.750% per annum of their \$25.00 per depositary share liquidation preference. Holders of depositary shares underlying our Series C Preferred Stock are entitled to receive cumulative cash dividends at a rate of 7.00% per annum up to, and including, October 14, 2022 and thereafter at a floating rate equal to three-month LIBOR plus a spread of 5.111% per annum of their \$25.00 per depositary share liquidation preference. Dividends are payable quarterly in arrears on the 15th day of each January, April, July and October. As of December 31, 2018, we had declared all required quarterly dividends on our preferred stock.

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

In September 2017, we redeemed all of our issued and outstanding shares of Series A Preferred Stock for \$173 million (or \$25 per share liquidation preference), plus accrued and unpaid dividends, and, in October 2017, we filed a Certificate of Elimination of our Series A Preferred Stock with the Secretary of State of the State of Delaware, which

eliminated the designation of Series A Preferred Stock from our amended and restated certificate of incorporation. Prior to the September 2017 redemption, holders of Series A Preferred Stock were entitled to receive cumulative cash dividends at a rate of 8.000% per annum of their \$25.00 per share liquidation preference.

Common Stock Offerings

During fiscal years 2018 and 2017, we completed follow-on public offerings of our common stock summarized in the table below (in millions, except for per share data). During fiscal year 2016, we did not complete any follow-on public offerings.

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

At-the-Market Offering Program

We have entered into agreements with sales agents to publicly offer and sell shares of our common stock in privately negotiated and/or at-the-market transactions from time-to-time up to a maximum aggregate offering price of our common stock. On June 14, 2018, our existing sales agreement terminated, and we entered into new sales agreements for shares of our common stock having an aggregate offering price of up to \$1 billion. The table below summarizes sales our common stock under the sales agreements during fiscal years 2018 and 2017 (in millions, except for per share data). During fiscal year 2016, we did not sell shares of our common stock under the sales agreements. As of December 31, 2018, shares of our common stock with an aggregate offering price of \$660 million remained available for issuance under this program.

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

Common Stock Repurchase Program

From time-to-time we are authorized by our Board of Directors to repurchase shares of our common stock under certain conditions. During fiscal year 2016, we repurchased 6.5 million shares of our common stock at an average repurchase price of \$17.89 per share, including expenses, totaling \$116 million. We did not repurchase shares of our common stock during fiscal year 2017 or 2018, and our most recent stock repurchase authorization expired on December 31, 2017.

Distributions to Stockholders

The following table summarizes cash dividends declared for fiscal years 2018, 2017 and 2016 (in millions, except per share amounts):

	Dividends Declared	Dividends Declared Per Share
8.000 % Series A Cumulative Redeemable Preferred Stock		
Fiscal year 2017	\$ 9	\$1.333000
Fiscal year 2016	\$ 14	\$2.000000
7.750% Series B Cumulative Redeemable Preferred Stock (Per Depositary Share)		
Fiscal year 2018	\$ 14	\$1.937500
Fiscal year 2017	\$ 14	\$1.937500
Fiscal year 2016	\$ 14	\$1.937500
7.00% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (Per Depositary Share)		
Fiscal year 2018	\$ 23	\$1.750000
Fiscal year 2017	\$ 9	\$0.695140
Common Stock		
Fiscal year 2018	\$ 964	\$2.160000
Fiscal year 2017	\$ 777	\$2.160000
Fiscal year 2016	\$ 763	\$2.300000

Accumulated Other Comprehensive Income (Loss)

The following table summarizes changes to accumulated OCI for fiscal years 2018, 2017 and 2016 (in millions):

	Fiscal Year		
	2018	2017	2016
Accumulated Other Comprehensive Income (Loss)			
Beginning Balance	\$(345)	\$(397)	\$(66)
OCI before reclassifications	(677)	(31)	(261)
(Gain) loss amounts for available-for-sale securities reclassified from accumulated OCI to realized gain (loss) on sale of investment securities	79	83	(109)
Periodic interest costs of interest rate swaps previously designated as hedges under GAAP, net	—	—	39
Ending Balance	\$(943)	\$(345)	\$(397)

Note 10. Long-Term Incentive Compensation

Stock-Based Incentive Plans

Under our 2016 Equity and Incentive Compensation Plan (the "2016 Equity Plan"), we may grant equity-based compensation in the form of stock options, stock appreciation rights, restricted shares, RSUs, performance shares, PSUs, 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 incentives and rewards for service or performance. The 2016 Equity Plan authorizes a total of 10 million shares 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 our 2016 Equity Plan and the terms of such awards. Prior to establishing our 2016 Equity Plan, we granted equity-based awards to independent directors per the terms of our AGNC Equity Incentive Plan for Independent Directors (the "Director Plan"). The Director Plan was terminated in December of 2016 and replaced by our 2016 Equity Plan. Outstanding awards under the Director Plan continued in effect in accordance with their terms. During fiscal years 2018, 2017 and 2016, we granted RSU awards to employees with a grant date fair value of \$4 million, \$4 million and \$2 million, respectively, which vest annually over a three-year period. Additionally, during fiscal year 2018, we granted fully vested RSU awards to employees with a grant date fair value of \$4 million in exchange for satisfaction and conversion of AGNC's obligations of an equivalent value under outstanding long-term incentive compensation awards granted to employees under the MTGE Incentive Plan ("RSU Exchange Awards") (see

Other Long-Term Incentive Compensation below). During fiscal years 2018, 2017 and 2016, we granted RSU awards to independent directors of \$500,000, \$500,000 and \$625,000, respectively, which vest over a 12 to 13 month period.

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

2016 Equity Incentive Plan	RSU Awards	Weighted Average Grant Date Fair Value ¹	Weighted Average Vest Date Fair Value
Unvested balance as of December 31, 2015	—	\$ —	\$ —
Granted	101,407	\$ 17.89	\$ —
Accrued RSU dividend equivalents	968	\$ —	\$ —
Unvested balance as of December 31, 2016	102,375	\$ 17.72	\$ —
Granted	238,203	\$ 19.52	\$ —
Accrued RSU dividend equivalents	32,498	\$ —	\$ —
Vested	(37,602)	\$ 16.08	\$ 20.42
Forfeitures	(246)	\$ 18.29	\$ —
Unvested balance as of December 31, 2017	335,228	\$ 17.46	\$ —
Granted ²	261,036	\$ 18.05	\$ —
Accrued RSU dividend equivalents	56,618	\$ —	\$ —
Vested ²	(150,423)	\$ 16.52	\$ 18.60
Forfeitures	(546)	\$ 16.98	\$ —
Unvested balance as of December 31, 2018	501,913	\$ 16.08	\$ —

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

2. Excludes 185,285 of RSU Exchange Awards.

The following table summarizes RSU and restricted stock transactions under the Director Plan for fiscal years 2017 and 2016:

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

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

During fiscal years 2018 and 2017, we granted PSU awards to employees under our 2016 Equity Plan, which vest at the end of a three-year period provided that specified performance criteria are met. The performance criteria are based on a formula tied to our achievement of long-term economic returns consisting of the change in tangible net book value and dividends paid per common share on an absolute basis and relative to a select group of our peers. The fair value of the PSU awards granted during fiscal years 2018 and 2017 as of the grant date was \$5 million and \$5 million, respectively, assuming the target levels of performance are achieved, but the actual value will vary within a range of 0% to 200% of target based on actual performance achieved relative to the targets. The following table summarizes PSU awards under our 2016 Equity Plan for fiscal years 2018 and 2017. We did not issue PSU awards during fiscal year 2016.

2016 Equity Incentive Plan	PSUs at Target Performance Level	Weighted Average Grant Date Fair Value ¹
Unvested balance as of December 31, 2016	—	\$ —
Granted	250,609	\$ 19.39
Accrued PSU dividend equivalents	22,767	\$ —
Vested	—	\$ —
Unvested balance as of December 31, 2017	273,376	\$ 17.78
Granted	272,228	\$ 17.98
Accrued PSU dividend equivalents	61,171	\$ —
Vested	—	\$ —
Unvested balance as of December 31, 2018	606,775	\$ 16.08

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

As of December 31, 2018, 7.9 million shares remained available for awards under the 2016 Equity Plan. For purposes of determining the total number of shares available for awards under the 2016 Equity Plan, available shares are reduced by (i) shares issued for vested RSU awards, net of units withheld to cover minimum statutory tax withholding requirements paid by us in cash on behalf of the employee and (ii) outstanding unvested awards, (iii) outstanding previously vested awards, if distribution of such awards has been deferred beyond the vesting date ("deferred awards"), and (iv) accrued dividend equivalent units on outstanding awards through December 31, 2018. Unvested performance-based awards assume the maximum payout under the terms of the award. As of December 31, 2018, 0.3 million of deferred awards were outstanding.

During fiscal years 2018, 2017 and 2016, we recognized compensation expense of \$6.1 million, \$3.1 million and \$28 thousand, respectively, for stock-based awards to employees and we recognized other operating expense of \$0.5 million, \$0.5 million and \$0.7 million, respectively, for stock-based awards to independent directors. As of December 31, 2018, we had unrecognized expense related to stock-based awards of approximately \$11 million, which is expected to be recognized over a weighted average period of 1.7 years.

Other Long-Term Incentive Compensation

During fiscal years 2018 and 2017, we granted long-term incentive compensation awards to employees under our MTGE Incentive Plan (the "Incentive Plan"), with original grant date fair values of \$2 million and \$2 million, respectively. Awards granted under the Incentive Plan were used to purchase shares of MTGE common stock on the open market and vested annually over a three-year period. Following the sale of MTGE and the resultant termination of the MTGE management agreement, all of the outstanding unvested awards under the Incentive Plan were fully vested (see Note 12). Deferred awards, or awards for which distribution of such awards had been deferred beyond the vesting date, were converted into AGNC RSU Exchange Awards of equal value under the 2016 Equity Plan. During fiscal years 2018 and 2017, we recognized long-term incentive compensation expense associated with awards under the Incentive Plan of \$5 million and \$1 million, respectively.

Note 11. Income Taxes

As of December 31, 2018, we have distributed all of our estimated taxable income for fiscal year 2018. Accordingly, we do not expect to incur an income tax liability on our 2018 taxable income. For fiscal years 2017 and 2016, we distributed all of our taxable income within the time limits prescribed by the Internal Revenue Code. Accordingly, we did not incur an income tax liability on our taxable income for such periods.

Based on our analysis of any potential uncertain income tax positions, we concluded that we do not have any uncertain tax positions that meet the recognition or measurement criteria of ASC 740 as of December 31, 2018, 2017 and 2016. Our tax returns for tax years 2015 and forward are open to examination by the IRS. If we incur income tax related interest and penalties, our policy is to classify them as a component of provision for income taxes.

Note 12. Management Agreement and Related Party Transactions

Prior to our acquisition of AMM on July 1, 2016, and our associated management internalization, we were externally managed. Under our management agreement we incurred a monthly management fee 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. For fiscal year 2016, prior to our internalization, our management fee expense totaled \$52 million.

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Through our acquisition of AMM we also became the external manager of MTGE. During fiscal years 2018, 2017 and 2016, we earned monthly management fee income totaling \$12 million, \$16 million and \$8 million, respectively. During September 2018, MTGE completed a sale of the company to a third party. Coincident with the sale, we were paid a one-time termination fee under the management agreement of \$42 million, which is reported in management fee income in our consolidated statements of comprehensive income for fiscal year 2018. Concurrent with the termination of the management agreement, we wrote-off our remaining unamortized intangible asset balance associated with the management agreement of \$23 million, which is reported in other operating expense for fiscal year 2018.

Note 13. Quarterly Results (Unaudited)

The following is a presentation of the quarterly results of operations and comprehensive income for fiscal years 2018 and 2017 (in millions, except per share data).

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

	Quarter Ended			
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
Interest income:				
Interest income	\$296	\$293	\$ 318	\$ 386
Interest expense	98	112	140	174
Net interest income	198	181	178	212
Other gain (loss):				
Gain (loss) on sale of investment securities, net	(84)	15	22	(16)
Unrealized gain (loss) on investment securities measured at fair value through net income, net	16	9	(31)	(65)
Gain (loss) on derivative instruments and other securities, net	(40)	(169)	131	271
Management fee income	4	4	4	4
Total other gain (loss), net	(104)	(141)	126	194
Expenses:				
Compensation and benefits	10	10	10	12
Other operating expenses	8	6	8	9
Total expenses	18	16	18	21
Net income	76	24	286	385
Dividend on preferred stock	7	7	9	9
Issuance costs of redeemed preferred stock	—	—	6	—
Net income available to common shareholders	\$69	\$17	\$ 271	\$ 376
Net income	\$76	\$24	\$ 286	\$ 385
Unrealized gain (loss) on investment securities measured at fair value through other comprehensive income (loss), net	46	121	90	(205)
Comprehensive income	122	145	376	180
Dividend on preferred stock	7	7	9	9
Issuance costs of redeemed preferred stock	—	—	6	—
Comprehensive income available to common shareholders	\$115	\$138	\$ 361	\$ 171
Weighted average number of common shares outstanding - basic	331.0	346.4	364.7	391.3
Weighted average number of common shares outstanding - diluted	331.1	346.5	364.9	391.5
Net income per common share - basic and diluted	\$0.21	\$0.05	\$ 0.74	\$ 0.96
Comprehensive income per common share - basic and diluted	\$0.35	\$0.40	\$ 0.99	\$ 0.44
Dividends declared per common share	\$0.54	\$0.54	\$ 0.54	\$ 0.54

Note 14. Subsequent Events

On January 10, 2019 and February 12, 2019, our Board of Directors declared a monthly dividend of \$0.18 per common share, payable on February 11, 2019 and March 11, 2019, respectively, to common stockholders of record as of January 31, 2019 and February 28, 2019, respectively.

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

None.

Item 9A. Controls and Procedures

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

We, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2018. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting

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

Attestation Report of Registered Public Accounting Firm

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

Changes in Internal Control over Financial Reporting

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

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information in response to this Item is incorporated herein by reference to the information provided in our Proxy Statement for our 2019 Annual Meeting of Stockholders (the "2019 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 2019 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 2019 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 2019 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 2019 Proxy Statement under the heading "PROPOSAL 4: RATIFICATION OF APPOINTMENT OF INDEPENDENT PUBLIC ACCOUNTANT."

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

(1) The following financial statements are filed herewith:

Consolidated Balance Sheets as of December 31, 2018 and 2017

Consolidated Statements of Comprehensive Income for fiscal years 2018, 2017 and 2016

Consolidated Statements of Stockholders' Equity for fiscal years 2018, 2017 and 2016

Consolidated Statements of Cash Flows for fiscal years 2018, 2017 and 2016

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

Exhibit No. Description

*3.1 AGNC Investment Corp. Amended and Restated Certificate of Incorporation, as amended, incorporated herein by reference to Exhibit 3.1 of Form 10-Q for the quarter ended March 31, 2018 (File No. 001-34057), filed May 7, 2018.

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

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

*3.4 Certificate of Designations of 7.00% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, incorporated herein by reference to Exhibit 3.5 of Form 8-A (File No. 001-34057), filed August 18, 2017.

*3.5 Certificate of Elimination of 8.000% Series A Cumulative Redeemable Preferred Stock, incorporated herein by reference to Exhibit 3.1 of Form 8-K (File No 001-34057), filed October 26, 2017.

*4.1 Instruments defining the rights of holders of securities: See Article IV of our Amended and Restated Certificate of Incorporation, as amended, incorporated herein by reference to Exhibit 3.1 of Form 10-Q for the quarter ended March 31, 2018 (File No. 001-34057) filed May 7, 2018.

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

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

*4.4 Specimen 7.750% 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.

*4.5 Specimen 7.00% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock Certificate, incorporated herein by reference to Exhibit 4.1 of Form 8-A (File No. 001-34057), filed August 18, 2017.

*4.6 Deposit Agreement relating to 7.750% Series B Cumulative Redeemable Preferred Stock, dated May 8, 2014, among American Capital Agency Corp., Computershare Inc. and Computershare Trust Company, N.A., jointly as depositary, incorporated herein by reference to Exhibit 4.2 of Form 8-K (File No. 001-34057), filed May 8, 2014.

*4.7 Form of Depositary Receipt representing 1/1,000th of a share of 7.750% Series B Cumulative Redeemable Preferred Stock (included as part of Exhibit 4.6), incorporated herein by reference to Exhibit A of Exhibit 4.2 of Form 8-K (File No. 001-34057), filed May 8, 2014.

*4.8 Deposit Agreement relating to 7.00% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, dated August 22, 2017, among AGNC Investment Corp., Computershare Inc. and Computershare Trust Company, N.A., jointly as depositary, incorporated herein by reference to Exhibit 4.2 of Form 8-K (File No. 001-34057) filed August 22, 2017.

*4.9 Form of Depositary Receipt representing 1/1,000th of a share of 7.00% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (included as part of Exhibit 4.8), incorporated herein by reference to Exhibit A of Exhibit 4.2 of Form 8-K (File No. 001-34057) filed August 22, 2017.

†* 10.1 Fourth Amended and Restated Employment Agreement, dated January 25, 2019, by and between AGNC Mortgage Management, LLC and Gary Kain, incorporated herein by reference to Exhibit 10.2 of Form 8-K (File No. 001-34057), filed January 25, 2019.

†* 10.2 Third Amended and Restated Employment Agreement, dated November 1, 2016, by and between AGNC Mortgage Management, LLC and Peter J. Federico, incorporated herein by reference to Exhibit 10.2 of Form 8-K (File No. 001-34057), filed November 4, 2016.

†* 10.3 Third Amended and Restated Employment Agreement, dated November 1, 2016, by and between AGNC Mortgage Management, LLC and Christopher J. Kuehl, incorporated herein by reference to Exhibit 10.3 of Form 8-K (File No. 001-34057), filed November 4, 2016.

†* 10.4 Employment Agreement, dated as of January 25, 2019, by and between Bernice Bell and AGNC Mortgage Management, LLC, incorporated herein by reference to Exhibit 10.1 of Form 8-K (File No. 001-34057), filed January 25, 2019.

†* 10.5 Employment Agreement, dated as of January 25, 2019, by and between Aaron J. Pas and AGNC Mortgage Management, LLC, incorporated herein by reference to Exhibit 10.3 of Form 8-K (File No. 001-34057), filed January 25, 2019.

†* 10.6 Employment Agreement, dated December 18, 2017, by and between Kenneth L. Pollack and AGNC Mortgage Management, LLC, incorporated herein by reference to Exhibit 10.3 of Form 8-K (File No. 001-34057), filed December 18, 2017.

†* 10.7 First Amendment to Employment Agreement by and between Kenneth L. Pollack and AGNC Mortgage Management, LLC, incorporated herein by reference to Exhibit 10.4 of Form 8-K (File No. 001-34057), filed January 25, 2019.

†* 10.8 AGNC Investment Corp. 2016 Equity and Incentive Compensation Plan, incorporated herein by reference to Exhibit 10.7 of Form 10-K (File No. 001-34057), filed February 27, 2017.

†* 10.9 Form of AGNC Investment Corp. 2016 Equity and Incentive Compensation Plan Restricted Stock Unit Agreement for Section 16 Officers with Employment Contracts, incorporated herein by reference to Exhibit 10.8 of Form 10-K (File No. 001-34057), filed February 27, 2017.

†* 10.10 Form of AGNC Investment Corp. 2016 Equity and Incentive Compensation Plan Performance-Based Restricted Stock Unit Agreement for Section 16 Officers with Employment Contracts, incorporated herein by reference to Exhibit 10.9 of Form 10-K (File No. 001-34057), filed February 27, 2017.

†* 10.11 Form of AGNC Investment Corp. 2016 Equity and Incentive Compensation Plan Restricted Stock Unit Agreement for Section 16 Officers without Employment Contracts, incorporated herein by reference to Exhibit 10.10 of Form 10-K (File No. 001-34057), filed February 27, 2017.

†* 10.12 Form of AGNC Investment Corp. 2016 Equity and Incentive Compensation Plan Performance-Based Restricted Stock Unit Agreement for Section 16 Officers without Employment Contracts, incorporated herein by reference to Exhibit 10.11 of Form 10-K (File No. 001-34057), filed February 27, 2017.

†* 10.13 Form of AGNC Investment Corp. 2016 Equity and Incentive Compensation Plan Restricted Stock Unit Agreement for Non-Employee Directors, incorporated herein by reference to Exhibit 10.14 of Form 10-K (file No. 001-34057), filed February 26, 2018.

†* 10.14 Form of AGNC Investment Corp. 2016 Equity and Incentive Compensation Plan Deferred Stock Unit Agreement incorporated herein by reference to exhibit 10 of Form 10-Q (File No. 001-34057) filed November 5, 2018.

† 10.15 Form of AGNC Investment Corp. 2016 Equity and Incentive Compensation Plan Restricted Stock Unit Agreement for Section 16 Officers with Retirement Provisions, filed herewith.

† 10.16 Form of AGNC Investment Corp. 2016 Equity and Incentive Compensation Plan Performance-Based Restricted Stock Unit Agreement for Section 16 Officers with Retirement Provisions, filed herewith.

† 10.17 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.

* 14 AGNC Investment Corp. Code of Ethics and Conduct, adopted July 19, 2018, incorporated herein by reference to Exhibit 14 of Form 10-Q (File No. 001-34057), filed August 6, 2018.

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 Attorney of directors, filed herewith.

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

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

32 Certification of CEO and CFO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS** 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.

SIGNATURES

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

AGNC INVESTMENT CORP.

By: /s/ GARY D. KAIN
 Gary D. Kain
 Chief Executive Officer and
 Chief Investment Officer (Principal Executive Officer)

Date: February 22, 2019

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 D. KAIN Gary D. Kain	Director, Chief Executive Officer and Chief Investment Officer (Principal Executive Officer)	February 22, 2019
/s/ BERNICE E. BELL Bernice E. Bell	Senior Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 22, 2019
* Morris A. Davis	Director	February 22, 2019
* Larry K. Harvey	Director	February 22, 2019
* Prue B. Larocca	Director	February 22, 2019
* Paul E. Mullings	Director	February 22, 2019
* Donna J. Blank	Director	February 22, 2019

*By: /s/ KENNETH L.
 POLLACK
 Kenneth L. Pollack

Attorney-in-fact

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