American Capital Agency

# BARCLAYS AMERICAS SELECT FRANCHISE CONFERENCE 2014

## MAY 14 , 2014

AGNC
NASDAQ
LISTED

# SAFE HARBOR STATEMENT

## SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

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

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

# Capital Stock Highlights

IPO Date:
**May 2008**

IPO Price:
**$20.00**

Total Dividends Paid / Declared Since IPO[1]:
**$28.26**

Net Asset Value Per Share[2]:
**$24.49**

Total Equity Capital[2]:
**$8.6 Billion**

Stock Ticker:
**AGNC**

Exchange:
NASDAQ

## Summary

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

## Our Investment Strategy

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

## Our Team

- Senior investment professionals have worked together for the majority of their careers and, on average, have 20 years of investment experience across the residential mortgage universe
- Previously managed one of the world's largest portfolios of residential mortgage related investments

## Our Fee Structure

- 1.25% on equity
- No incentive fee

1. As of April 28, 2014
2. As of March 31, 2014. "Net Asset Value" and "Total Equity Capital" are net of the 8.000% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock") aggregate liquidation preference of $173 million

# OVERVIEW OF THE US MORTGAGE MARKET

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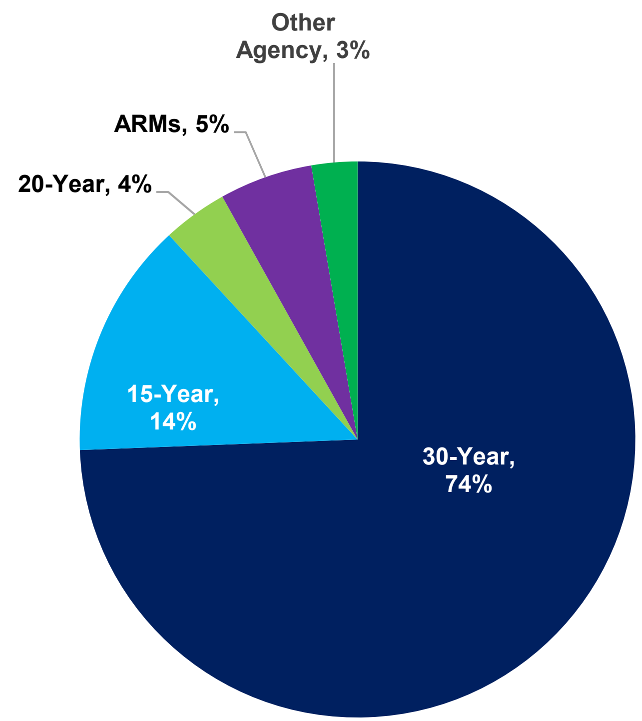
- The vast majority of mortgages in the United States are fixed-rate with original terms of 15 and 30 years
  - ✓ 30 year mortgages make up about 75% of the market
- US mortgages amortize over the life and require borrowers pay both interest and principle on a monthly basis
- Borrowers have the option to refinance their mortgages if interest rates fall
  - ✓ Typically with no prepayment penalty
- The fixed term coupled with significant prepayment risk distinguish mortgages from other fixed-income assets

**Breakdown of the Agency MBS Market [1]**

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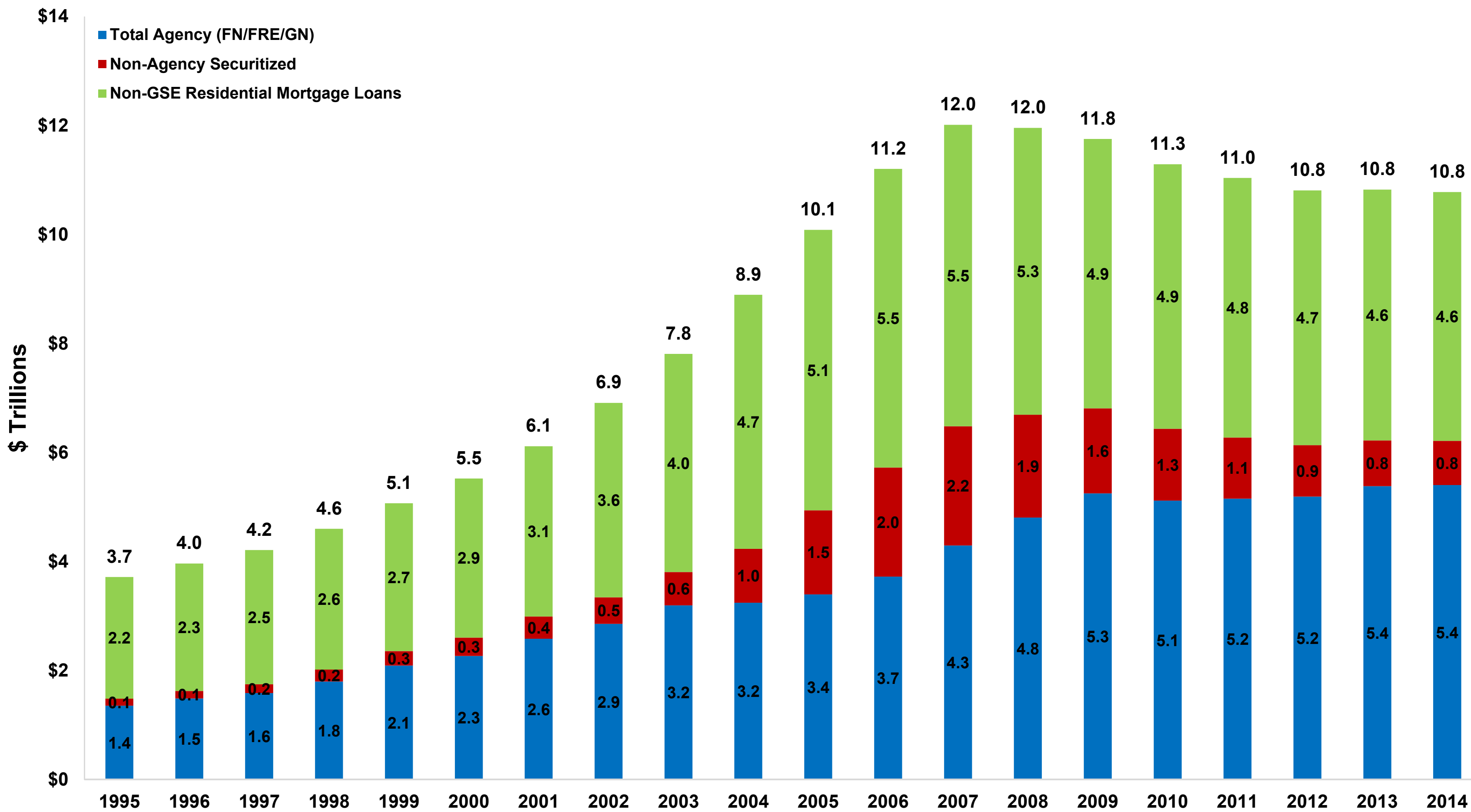
1. Source: Nomura Securities estimates, as of Mach 31, 2014

# U.S. RESIDENTIAL MORTGAGE MARKET

## MORTGAGES BACKING AGENCY MBS NOW REPRESENT ABOUT HALF OF THE U.S. MORTGAGE MARKET

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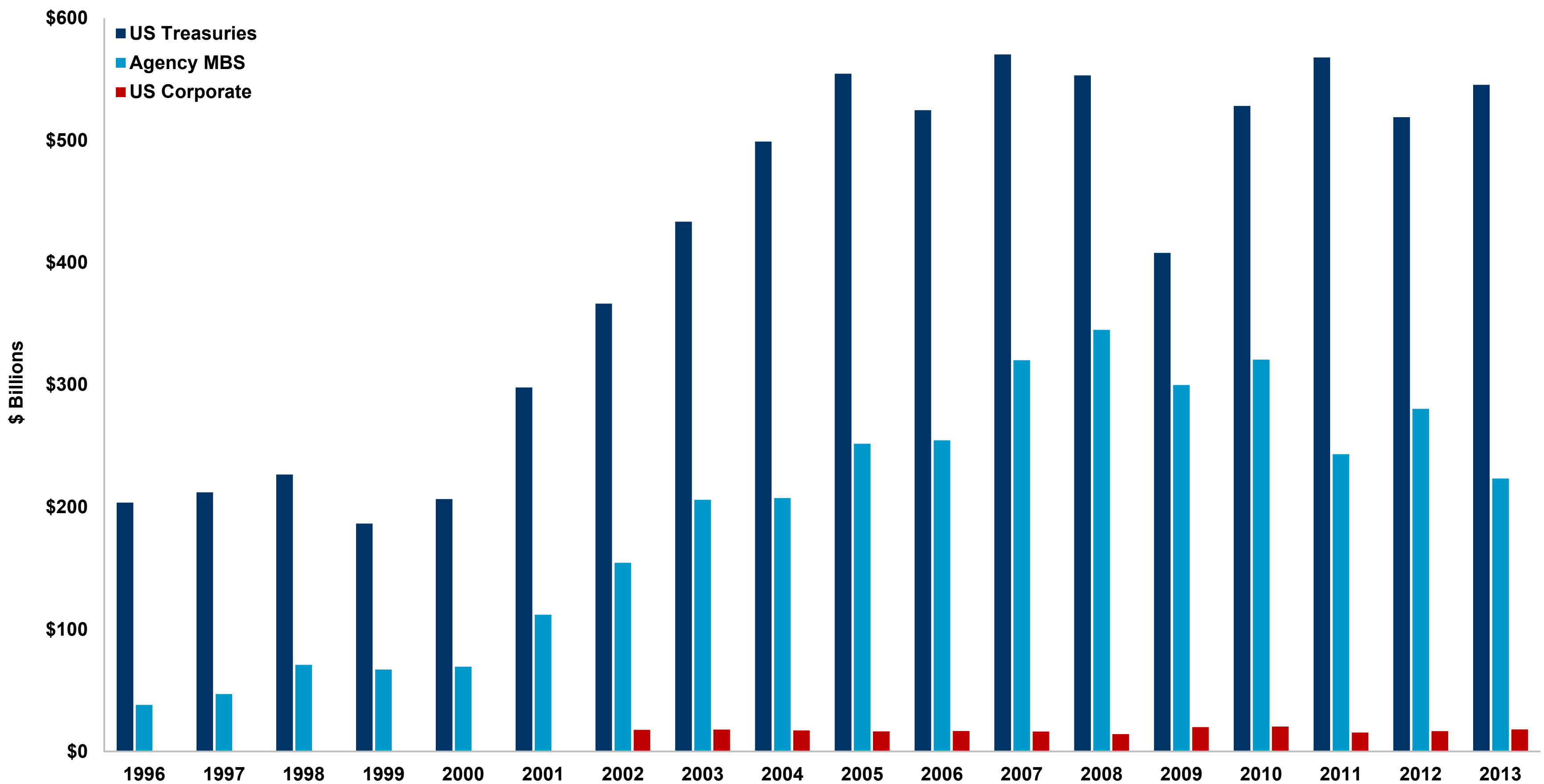
Source: Citi Research estimates, March 31, 2014

# LIQUIDITY OF THE AGENCY MBS MARKET

## BEHIND THE U.S. TREASURY MARKET, THE AGENCY MBS MARKET IS THE SECOND MOST LIQUID FIXED INCOME MARKET IN THE WORLD

**Average Trading Volumes**




Sources: SIFMA, Federal Reserve Bank of New York, Municipal Securities Rulemaking Board, FINRA TRACE
Primary dealer activity; Excludes all issues with maturities of one year or less and convertible securities; Totals may not add due to rounding

# AGNC Business Overview, Portfolio, and Performance

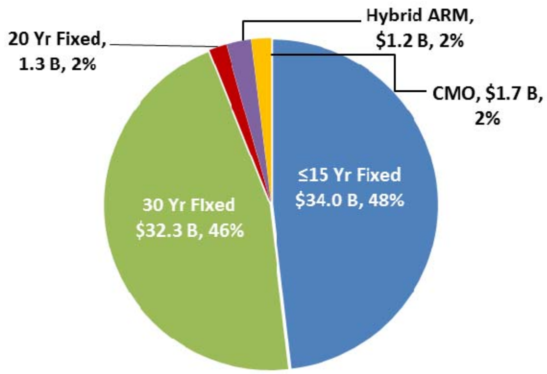
# OUR BUSINESS MODEL

- **We purchase agency MBS, fund positions with reverse repo, and hedge a large portion of our interest rate exposure**
  - ✓ Our portfolio totaled approximately $70 billion at the end of Q1, 2014
- **We utilize leverage to enhance returns**
  - ✓ March 31, 2014 “at risk” or effective leverage of 7.6 times
    - Average leverage of approximately 8x over past 5 years
  - ✓ Approximately 50% of our capital available to meet margin calls in stressful scenarios
    - Repo advance rates on AGNC MBS of approximately 95%
- **We hedge a significant amount of our interest rate risk with swaps, swaptions, and treasuries**
  - ✓ Duration gap of approximately 1.2 years as of March 31, 2014
- **Our hedges are not designed to mitigate the basis risk between MBS and swap and treasury markets**

# AGNC PORTFOLIO COMPOSITION VS. AGENCY MBS UNIVERSE

## ASSET COMPOSITION WILL BE CRITICAL TO PERFORMANCE AS WE TRANSITION TO A POST QE3 MORTGAGE MARKET

**As of 3/31/14**
**$70.5 B Portfolio**
**MBS ($56.4 B, 80%) & Net TBA Position ($14.1 B, 20%)**




**15 Year Fixed Rate MBS**

| Coupon | AGNC Portfolio Years to Maturity [1] | AGNC Portfolio [2] | Universe [3] | AGNC Portfolio vs. Universe [4] |
|---|---|---|---|---|
| 2.50 | 13.2 | 14% | 7% | overweight |
| 3.00 | 12.5 | 15% | 5% | overweight |
| 3.50 | 11.4 | 13% | 3% | overweight |
| 4.00 | 11.1 | 8% | 2% | overweight |
| 4.50 | 10.8 | 1% | 3% | neutral |
| **Total 15 Year** | **12.0** | **51%** | **20%** | **overweight** |

**30 Year Fixed Rate MBS**

| Coupon | AGNC Portfolio Years to Maturity [1] | AGNC Portfolio [2] | Universe [3] | AGNC Portfolio vs. Universe [4] |
|---|---|---|---|---|
| 3.00 | 26.7 | <1% | 16% | underweight |
| 3.50 | 27.4 | 20% | 17% | overweight |
| 4.00 | 27.3 | 25% | 17% | overweight |
| 4.50 | 26.3 | 3% | 12% | underweight |
| ≥ 5.00 | 21.5 | 1% | 18% | underweight |
| **Total 30 Year** | **27.0** | **49%** | **80%** | **underweight** |

- **AGNC's portfolio is comprised of predominantly fixed-rate MBS with a similar mix between 15 year and 30 year mortgages**
- **AGNC's portfolio is materially overweight 15 year mortgage securities as a way to control our exposure to both basis and convexity risk**

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All figures as of Mar 31, 2014
1. Years to maturity includes AGNC's on balance sheet positions as of Mar 31, 2014 (excludes TBAs)
2. AGNC portfolio composition includes TBA positions as of Mar 31, 2014
3. Universe includes all 15 year and 30 year deliverable Fannie Mae and Freddie Mac fixed rate securities and non-deliverable MHA securities (100% refi and LTV >105 at origination). Excludes all other non-deliverable securities; Source: Citi Research as of Mar 31, 2014
4. Neutral weight equals +/- 2%

# MANAGING MORTGAGE EXTENSION RISK [1]

## GIVEN THE COMPOSITION OF OUR PORTFOLIO, FURTHER ASSET EXTENSION RISK IS MINIMAL

| Duration Gap Sensitivity [2,3] As of Mar 31, 2014 | | | |
|---|---|---|---|
| | **Duration 3/31/2014** | **Rates Up 100 Bps** | **Rates Up 200 Bps** |
| Mortgage Assets: [4] | | | |
| 30-Year MBS | 6.1 | 7.1 | 7.3 |
| 15-Year MBS | 4.2 | 4.7 | 4.8 |
| **Total Mortgage Assets** | **5.1** | **5.8** | **5.9** |
| Liabilities, Swaps and Treasuries | (3.8) | (3.8) | (3.8) |
| **Net Duration Gap without Swaptions** | **1.3** | **2.0** | **2.1** |
| Swaptions | (0.1) | (0.4) | (0.5) |
| **Net Duration Gap with Swaptions** | **1.2** | **1.6** | **1.6** |
| **As of Dec 31, 2013** | | | |
| **Net Duration Gap with Swaptions** | **1.5** | **1.8** | **1.8** |

- **Moderate portfolio rebalancing actions on an ongoing basis should allow us to further mitigate our interest rate risk exposure**

1. Extension risk is the risk that the duration of a mortgage security increases in a rising rate environment
2. Durations are expressed in years. Liability, swap, U.S. Treasury and swaption durations are expressed in asset units
3. The estimated durations included in the table above are as of a point in time and are derived from models that are dependent on inputs and assumptions provided by third parties as well as by our investment team and, accordingly, actual results could differ materially from these estimates. The sensitivity analysis assumes an instantaneous change in interest rates and, consequently, does not include the potential impact of ongoing portfolio rebalancing actions
4. Mortgage assets include net TBA position. 15-year MBS position includes 20-year fixed rate MBS

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# NAV Sensitivity to Rates and MBS Spreads

## Both changes in interest rates and changes to MBS spreads relative to Treasury and swap rates can impact the market value of our equity

♦ **Interest Rate Sensitivity**

- ✓ Interest rate sensitivity is the sensitivity of our assets to changes in interest rates
  - The duration of a mortgage changes with interest rates and tends to increase when rates rise and decrease when rates fall
  - This "negative convexity" generally increases the interest rate exposure of a mortgage portfolio over what would be indicated by just our duration gap alone
- ✓ The estimated change in the market value of our asset portfolio, net of hedges, in the adjacent table is based on model predictions as of Mar 31, 2014, incorporates the dual effects of both duration and convexity and assumes that no portfolio rebalancing actions are taken

♦ **MBS Spread Sensitivity ("Basis Risk")**

- ✓ The MBS spread sensitivity is the sensitivity of our assets to changes in MBS spreads
- ✓ Our estimated spread sensitivity is based on model predictions and assumes a spread duration of 5.00 years, which is based on interest rates and MBS prices as of Mar 31, 2014
- ✓ The spread sensitivity is also sensitive to interest rates and increases as interest rates rise and prepayments slow

**Interest Rate Sensitivity [1]**
**As of Mar 31, 2014**
**(based on instantaneous parallel shift in interest rates)**

| Interest Rate Shock (bps) | Estimated Change in Portfolio Market Value [2] | Estimated Change as a % of NAV [3] |
|---|---|---|
| -100 | 0.4% | 3% |
| -50 | 0.5% | 4% |
| +50 | -0.7% | -6% |
| +100 | -1.5% | -12% |

**MBS Spread Sensitivity ("Basis Risk") [1]**
**As of Mar 31, 2014**

| MBS Spread Shock (bps) | Estimated Change in Portfolio Market Value [2] | Estimated Change as a % of NAV [3] |
|---|---|---|
| -25 | 1.3% | 10% |
| -10 | 0.5% | 4% |
| +10 | -0.5% | -4% |
| +25 | -1.3% | -10% |

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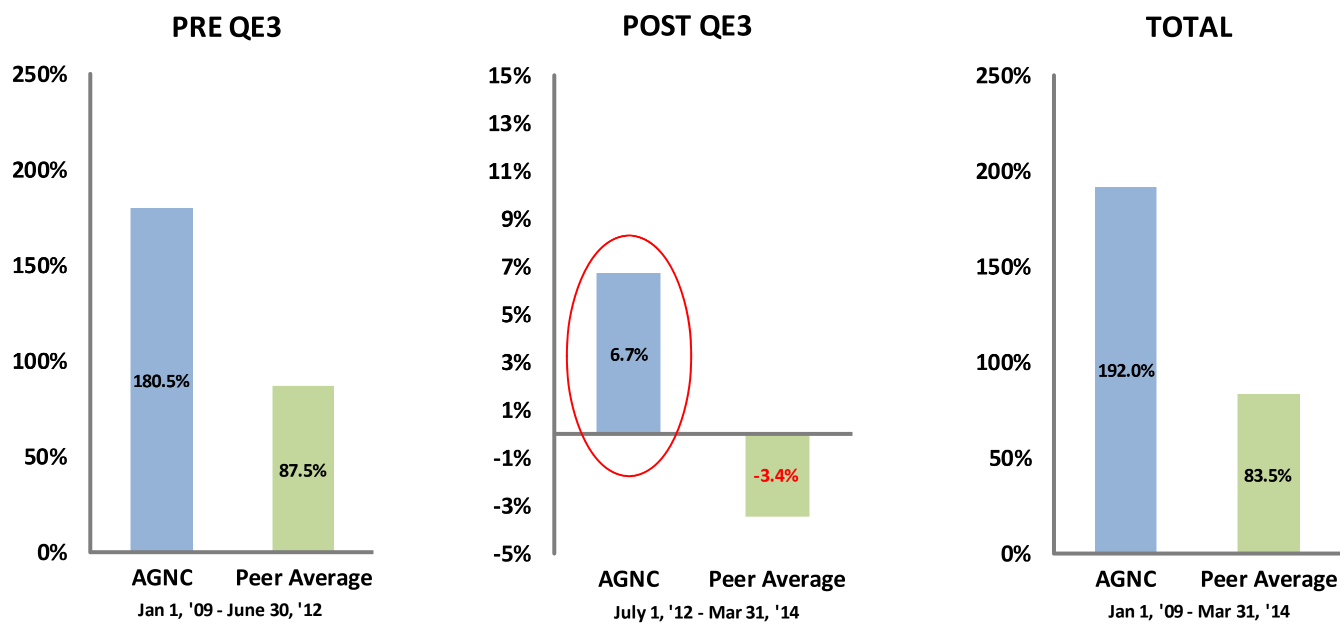
1. Interest rate and MBS spread sensitivity are derived from models that are dependent on inputs and assumptions provided by third parties as well as by our investment team and, accordingly, actual results could differ materially from these estimates. Please also refer to the supplemental slide at the end of this presentation for additional information.
2. Estimated dollar change in value expressed as a percentage of the total market value of "at risk" assets
3. Estimated change as a percentage of NAV incorporates the impact of leverage

# TOTAL ECONOMIC RETURNS: PRE AND POST QE3

## AGNC'S ECONOMIC RETURN SINCE INCEPTION AND THROUGH THE RECENT CHALLENGING ENVIRONMENT HAS OUTPERFORMED ITS PEER GROUP DUE IN PART TO AGNC'S ACTIVE APPROACH TO PORTFOLIO MANAGEMENT

**AGNC vs. Peer Group Average**
**Total Historical Economic Returns**
**Jan 1, 2009 – Mar 31, 2014 [1]**

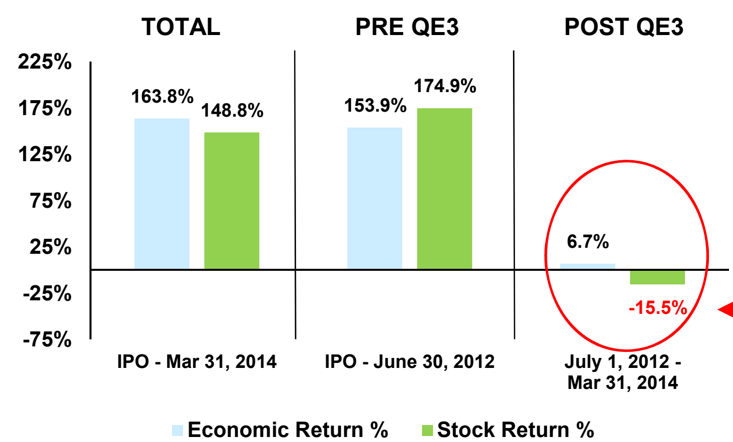



1. Economic return on common equity represents the sum of the change in net asset value per common share and dividends declared on common stock during the period over the beginning net asset value per common share. Peer group average consists of HTS, CMO, NLY, ANH, CYS and ARR on an unweighted basis

# ECONOMIC AND TOTAL STOCK RETURN COMPARISON

## SINCE THE ONSET OF QE3, THE DECLINE IN AGNC'S PRICE TO BOOK RATIO TO 88% HAS DRIVEN A SUBSTANTIAL DIVERGENCE BETWEEN ACTUAL PORTFOLIO PERFORMANCE AND TOTAL STOCK RETURN

**Economic Return vs. Total Stock Return**
**IPO - Mar 31, 2014 [1,2]**




**Post QE3**
**Change in Book Value vs. Change in Stock Price**

| | Net Book Value | Stock Price | Price/Book Ratio |
|---|---|---|---|
| Jun 30, 2012 | $29.41 | $33.61 | 114% |
| Mar 31, 2014 | $24.49 | $21.49 | 88% |
| **Change** | **($4.92)** | **($12.12)** | **-26 %** |
| Dividend | $6.90 | $6.90 | -- |
| Total | $1.98 | $(5.22) | -- |
| **Return %** | **6.7%** | **-15.5%** | **--** |

- **Economic return is the combination of dividends plus the change in net book value per common share, while total stock return is the combination of dividends plus the change in stock price per common share [1]**
- **Since the inception of QE3, AGNC has generated a 6.7% economic return for common shareholders inclusive of dividends of $6.90 per common share and a $(4.92) decline in book value per common share**
- **During the same period, the total stock return was -15.5% as the stock price dropped considerably more than the change in net book value**

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1. May 14, 2008 IPO date
2. Economic return and total stock return do not assume reinvestment of dividends

# The Investment Landscape For the Remainder of 2014

# Relative Value Supportive of US Treasury Debt and Agency MBS

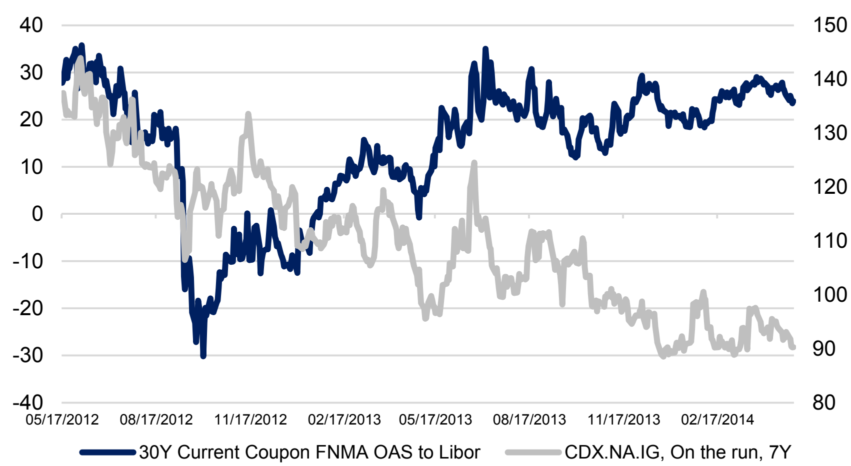
## The yield on Agency MBS looks favorable relative to alternative instruments

- **US Treasury and Agency MBS yields have increased considerably since the onset of QE3**
  - ✓ UST 10yr rates +106bps
  - ✓ FNMA 3.5 MBS +150bps
- **During the same time period, yields on most other sovereign debt have decreased**
  - ✓ Italian 10yr rates -241bps
  - ✓ JGB 10yr rates -20bps
  - ✓ German 10yr Bund rates -1bps
- **Relative value within US debt markets supportive of Agency MBS**
  - ✓ IG corporate debt has tightened 50bps since the onset of QE3
  - ✓ Option Adjusted Spreads on Agency MBS are unchanged since June 2012 in part due to both a benign prepayment environment and a significant decline in implied volatility.

**Asset Yield[1]**

| | 6/29/2012 | 3/31/2014 | Change |
|---|---|---|---|
| UST 10yr | 1.66% | 2.72% | 1.06% |
| FNCL 3.5 | 1.91% | 3.41% | 1.50% |
| JGB 10yr | 0.84% | 0.64% | -0.20% |
| Bunds 10yr | 1.58% | 1.57% | -0.01% |
| Italian 10yr | 5.76% | 3.35% | -2.41% |

**IG Spread vs CC Option-Adjusted Spread[2]**

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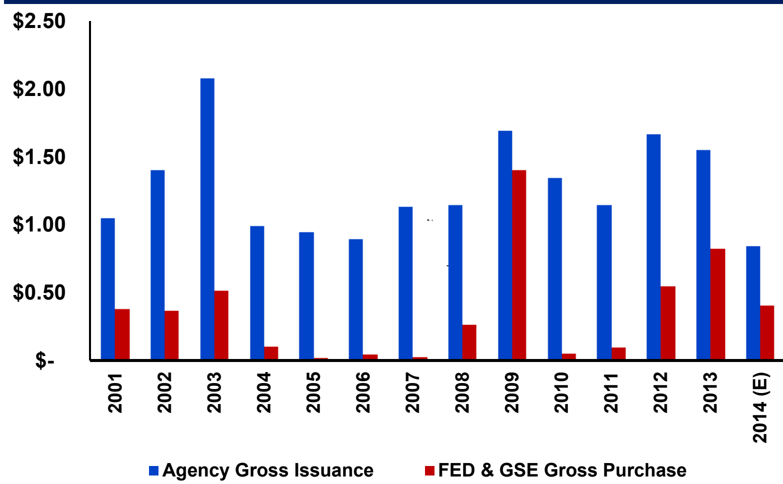
1. Data from JP Morgan
2. Source: CitiVelocity; CDX NAIG, On the run, 7Y is the Markit 7yr Investment Grade Index composite spread at close

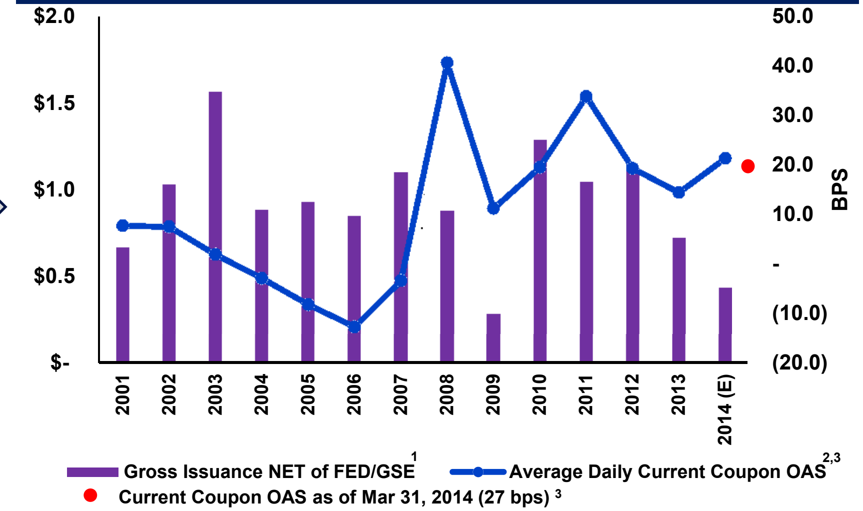
# Supply/Demand Equation in Agency MBS Remains Favorable Despite "Tapering"

## 2014 MBS supply net of Fed purchases will be lowest since 2009

**Gross Supply vs. FED/GSE Gross Purchases [1]**
*($ in Trillions)*




**Remaining Gross Supply vs. Current Coupon OAS**
*($ in Trillions)*




- **2014 gross MBS supply is expected to be $843 billion, a post-crisis low, on declining refinance volumes and low purchase activity due to constrained credit availability and weaker affordability**
  - ✓ The expected gross supply of $843 billion is about $450 billion lower than the 14 year average of $1.3 trillion
  - ✓ Supply projection assumes FED tapering completed in October of 2014 and paydown reinvestment through year end
- **2014 estimated gross issuance of $438 billion, net of FED/GSE purchases, is the lowest since 2009**
  - ✓ It is also $515 billion lower than the 14 year average of $916 billion
- **Mortgage OASs (MBS spread to swaps net of embedded options) remain at relatively wide levels**
  - ✓ MBS current coupon option adjusted spreads are wider today than many prior periods with minimal FED and GSE purchase activity (2004-2007)

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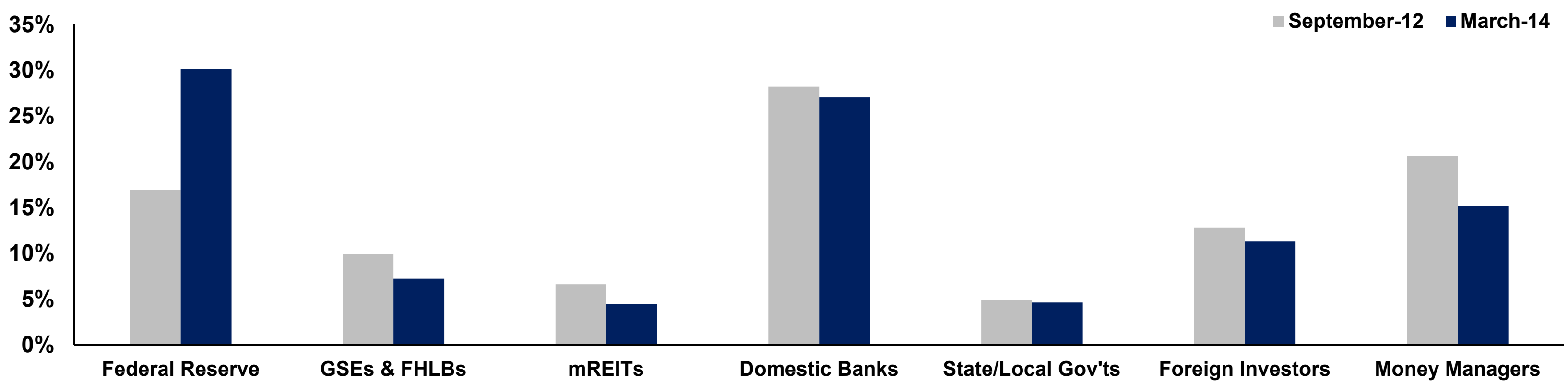
1. Data from Nomura Securities International, Inc. and Morgan Stanley
2. Daily average current coupon option adjusted spreads ("OAS") for each period presented. 2014(E) includes daily average through Mar 31, 2014
3. Source: Average of data from Nomura (Yieldbook), Locus, Barclays Live and JP Morgan

# Changes to the Investor Base For Agency MBS Also Supportive of MBS Market

## The FED now owns a very large percentage of the outstanding balance of Agency MBS While Private Investors Have Reduced Holdings

**Ownership Percentage of MBS Market – Pre and Post QE3 [1]**




- **The FED's holding of agency MBS has almost doubled to around 30% of the Agency MBS market, or $1.6 trillion**
  - ✓ FED expected to continue reinvesting paydowns on its Agency MBS holdings well past the conclusion of tapering process
- **Mortgage REIT holdings of agency MBS have declined significantly but leverage levels are now at historical lows**
- **Bank portfolio holdings are slightly lower despite material increases in deposits**
- **Foreign investors have reduced their holdings since QE3 but this trend could reverse given the significant repricing of US fixed income versus European and Japanese Sovereign debt**
- **Money managers have reduced their holdings by about $200 billion and are now significantly underweight agency MBS**

1. Data from Nomura Securities International, Inc.

# Q1 2014 Stockholder Presentation

## April 29, 2014

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American Capital Agency

Type / Stock Ticker:
**Common Stock / AGNC**

Exchange:
NASDAQ

IPO Date:
**May 2008**

IPO Price:
**$20.00 Per Share**

Total Dividends Paid Since IPO[1]:
**$28.26 Per Share**

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**$24.49 Per Share**

Total Equity Capital[2]:
**$8.6 Billion**

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Type / Name:
**8.000% Series A Cumulative Redeemable Preferred Stock**

Preferred Stock Ticker:
**AGNCP**

Exchange:
NASDAQ

Issue Date / Call Date / Maturity Date:
**April 2012 / April 2017 / Perpetual**

Public Offering Price:
**$25.00 Per Share**

Per Annum Dividend Rate:
**8.000% Payable Quarterly**

Total Dividends Paid Since Offering[1]:
**$4.056 Per Share**

Shares Outstanding[2]:
**6.9 Million**

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1. As of April 28, 2014
2. As of March 31, 2014. "Net Asset Value" and "Total Equity Capital" are net of the 8.000% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock") aggregate liquidation preference of $173 million

# Q1 2014 HIGHLIGHTS

- **$1.18 Comprehensive Income per Share, Comprised of:**
  - ✓ $(0.41) net loss per share
  - ✓ $1.59 other comprehensive income ("OCI") per share
    - Includes net unrealized gains on investments marked-to-market through OCI
- **$0.71 Net Spread and Dollar Roll Income per Share, Excluding "Catch-Up" Premium Amortization [1]**
  - ✓ $0.64 per share including $(0.07) per share of estimated "catch-up" premium amortization cost due to change in projected constant prepayment rate ("CPR") estimates
  - ✓ Includes $0.14 per share of estimated net carry income (also known as "dollar roll income") associated with an average net long position in agency MBS in the "to-be-announced" ("TBA") market [2]
- **$0.47 Estimated Taxable Income per Share [1]**
  - ✓ Excludes $0.29 per share of net capital gains (including $0.14 per share of TBA dollar roll income) applied against prior year net capital loss carryforward
- **$0.65 Dividend Declared per Share**
- **$0.42 Estimated Undistributed Taxable Income per Share as of Mar 31, 2014**
- **$24.49 Net Book Value per Share as of Mar 31, 2014**
  - ✓ Increased $0.56 per share, or 2.3%, from $23.93 per share as of Dec 31, 2013
- **5.1% Economic Return on Common Equity for the Quarter, or 20.5% Annualized**
  - ✓ Comprised of $0.65 dividend per share and $0.56 increase in net book value per share

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Note: Per share amounts included throughout this presentation are per common share, unless otherwise indicated

1. Net spread and dollar roll income and taxable income are non-GAAP measures. Please refer to the supplemental slides later in this presentation for a reconciliation and further discussion of non-GAAP measures
2. Dollar roll income is based on the net TBA position and is recognized in gain (loss) on derivative instruments and other securities, net.

# Q1 2014 OTHER HIGHLIGHTS

- **$70.5 Billion Agency MBS Investment Portfolio as of Mar 31, 2014**
  - ✓ Includes $14.1 billion net long TBA mortgage position as of Mar 31, 2014
- **$352 Million of Mortgage REIT Equity Securities Held as of Mar 31, 2014**
  - ✓ Recognized $49 million, or $0.14 per share, of dividends and gains from REIT equity securities during the quarter
- **7.6x "At Risk" Leverage as of Mar 31, 2014** [1,2]
  - ✓ 5.9x leverage excluding net long TBA mortgage position as of Mar 31, 2014
- **7.2x Average "At Risk" Leverage during the Quarter**
  - ✓ 6.7x average leverage for the quarter excluding average net TBA mortgage position
- **7% Actual Portfolio CPR for the Quarter**
  - ✓ 8% average projected portfolio life CPR as of Mar 31, 2014
  - ✓ Excludes net TBA mortgage position
- **1.43% Annualized Net Interest Rate Spread and TBA Dollar Roll Income for the Quarter**[3]
  - ✓ 1.59% annualized net interest spread and TBA dollar roll income for the quarter excluding 16 bps of "catch-up" premium amortization cost due to change in projected CPR estimates, compared to 1.42% for the prior quarter
  - ✓ Includes 24 bps of estimated TBA dollar roll income
- **3.4 Million Shares of Common Stock Repurchased during the Quarter**
  - ✓ Represents 1% of common shares outstanding as of Dec 31, 2013
  - ✓ $22.10 per share average repurchase price, net of expenses

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1. Leverage calculated as sum of agency MBS repurchase agreements ("repo"), net payable/receivable for agency securities not yet settled, and other debt divided by the sum of total stockholders' equity less the fair value of investments in REIT equity securities. Leverage excludes U.S. Treasury repo.
2. "At risk" leverage includes the components of "leverage", plus our net TBA position (at cost).
3. Net interest rate spread calculated as the average asset yield, less average cost of funds. Average cost of funds includes agency MBS repo, other debt and periodic swap interest costs. Net interest rate spread and cost of funds exclude other supplemental hedges, such as swaptions, U.S. Treasury positions and U.S. Treasury repos.

# MARKET INFORMATION

| Security | 3/31/13 | 6/30/13 | 9/30/13 | 12/31/13 | 3/31/14 | Q1 2014 Δ |
|---|---|---|---|---|---|---|
| Treasury Rates | | | | | | |
| 2 Yr UST | 0.24% | 0.36% | 0.32% | 0.38% | 0.42% | +0.04% |
| 3 Yr UST | 0.36% | 0.66% | 0.63% | 0.78% | 0.90% | +0.12% |
| 5 Yr UST | 0.77% | 1.39% | 1.38% | 1.74% | 1.72% | -0.02% |
| 10 Yr UST | 1.85% | 2.49% | 2.61% | 3.03% | 2.72% | -0.31% |
| 30 Yr UST | 3.10% | 3.52% | 3.69% | 3.96% | 3.56% | -0.40% |
| 15 Year Fixed Rate Mortgages | | | | | | |
| 2.50% | 103.75 | 100.45 | 100.61 | 99.00 | 99.92 | +0.92 |
| 3.00% | 105.17 | 102.82 | 103.53 | 102.05 | 102.72 | +0.67 |
| 3.50% | 106.03 | 104.20 | 105.58 | 104.58 | 104.83 | +0.25 |
| 4.00% | 107.00 | 105.32 | 106.25 | 105.94 | 105.78 | -0.16 |
| 4.50% | 107.67 | 106.00 | 106.25 | 106.44 | 106.05 | -0.39 |

| Security | 3/31/13 | 6/30/13 | 9/30/13 | 12/31/13 | 3/31/14 | Q1 2014 Δ |
|---|---|---|---|---|---|---|
| Swap Rates | | | | | | |
| 2 Yr Swap | 0.42% | 0.51% | 0.46% | 0.49% | 0.55% | +0.06% |
| 3 Yr Swap | 0.54% | 0.82% | 0.76% | 0.88% | 0.99% | +0.11% |
| 5 Yr Swap | 0.95% | 1.57% | 1.54% | 1.79% | 1.80% | +0.01% |
| 10 Yr Swap | 2.01% | 2.70% | 2.77% | 3.09% | 2.84% | -0.25% |
| 30 Yr Swap | 2.99% | 3.45% | 3.66% | 3.93% | 3.54% | -0.39% |
| 30 Year Fixed Rate Mortgages | | | | | | |
| 3.00% | 103.11 | 97.72 | 97.70 | 95.11 | 96.53 | +1.42 |
| 3.50% | 105.58 | 101.50 | 101.83 | 99.48 | 100.59 | +1.11 |
| 4.00% | 106.61 | 104.16 | 104.86 | 103.11 | 103.94 | +0.83 |
| 4.50% | 107.73 | 105.82 | 106.80 | 106.06 | 106.69 | +0.63 |
| 5.00% | 108.34 | 107.65 | 108.45 | 108.80 | 109.05 | +0.25 |

- **The yield curve flattened materially during Q1 as the market priced in moderate FED tightening beginning mid-2015**
  - ✓ 10 year rates declined 31 bps and are back to levels consistent with the end of Q3 2013
  - ✓ Shorter term rates increased and the 5 year swap rate was essentially unchanged for the quarter despite the rally in 10 year rates
- **Agency MBS generally underperformed longer term interest rate hedges and outperformed the short to intermediate part of the curve**

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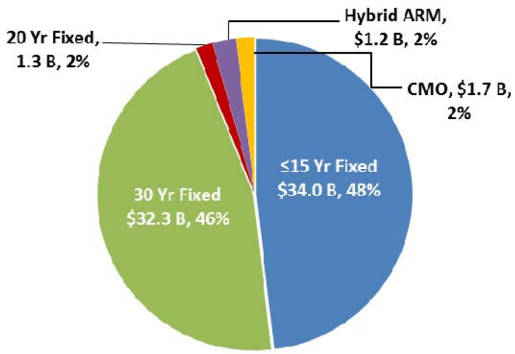
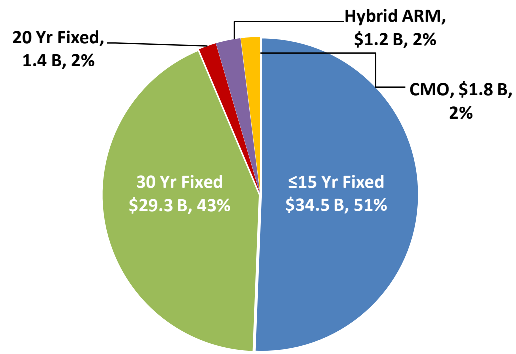
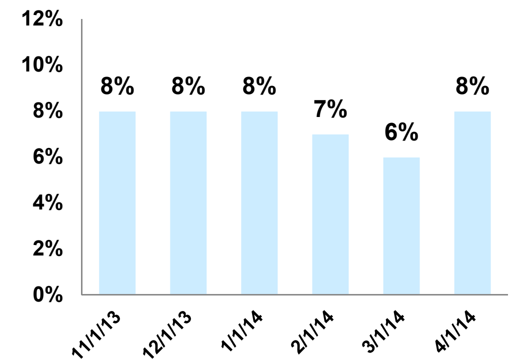
1. Source: Barclays
2. Note: Price information is provided for illustrative purposes only, is for generic instruments and is not meant to be reflective of securities held by AGNC. Prices can vary materially depending on the source

# Q1 2014 PORTFOLIO UPDATE

| As of 3/31/14<br>$70.5 B Portfolio<br>MBS ($56.4 B, 80%) & Net TBA Position ($14.1 B, 20%) | As of 12/31/13<br>$68.2 B Portfolio<br>MBS ($65.9 B, 97%) & Net TBA Position ($2.3 B, 3%) | AGNC Actual CPR [1] |
|---|---|---|




**≤15 Year - $34.0 B Portfolio (48% of Total) as of 3/31/14**

| ($ In Millions) | FMV | % | Coupon | WALA [4] | Apr'14 1 M Actual CPR [1] | Life Forecast CPR [5] |
|---|---|---|---|---|---|---|
| Lower Loan Bal [2] | $16,235 | 48% | 3.45% | 32 | 9% | 9% |
| HARP [3] | 2,320 | 7% | 3.18% | 22 | 7% | 8% |
| Other 2009-2014 | 11,064 | 32% | 3.04% | 29 | 8% | 8% |
| Other (Pre 2009) | 31 | 0% | 4.61% | 92 | 9% | 14% |
| **≤15 Year MBS** | **$29,650** | **87%** | **3.27%** | **30** | **8%** | **9%** |
| **Net Long TBA** | $4,300 | 13% | 2.51% | **N/A** | **N/A** | **N/A** |
| **Total ≤15 Year** | **$33,950** | **100%** | **3.17%** | **N/A** | **N/A** | **N/A** |

**30 Year - $32.3 B Portfolio (46% of Total) as of 3/31/14**

| ($ In Millions) | FMV | % | Coupon | WALA [4] | Apr'14 1 M Actual CPR [1] | Life Forecast CPR [5] |
|---|---|---|---|---|---|---|
| Lower Loan Bal [2] | $9,880 | 31% | 3.76% | 27 | 7% | 6% |
| HARP [3] | 11,014 | 34% | 3.98% | 26 | 7% | 7% |
| Other 2009-2014 | 1,360 | 4% | 3.89% | 24 | 8% | 8% |
| Other (Pre 2009) | 212 | 1% | 5.62% | 104 | 13% | 22% |
| **30 Year MBS** | **$22,466** | **70%** | **3.89%** | **27** | **7%** | **7%** |
| **Net Long TBA** | $9,802 | 30% | 3.70% | **N/A** | **N/A** | **N/A** |
| **Total 30 Year** | **$32,268** | **100%** | **3.84%** | **N/A** | **N/A** | **N/A** |

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1. Wtd/avg actual 1 month annualized CPR released at the beginning of the month based on the securities held as of the preceding month-end
2. Lower loan balance defined as pools backed by original loan balance of up to $150 K. Wtd/avg original loan balance of $100 K for ≤15-year and $95 K for 30-year securities as of Mar 31, 2014
3. HARP defined as pools backed by 100% refinance loans with original LTVs ≥80%. Wtd/avg original LTV of 107% for ≤15-year and 106% for 30-year securities as of Mar 31, 2014. Includes $987 MM and $2.1 B of ≤15-year and 30-year securities, respectively, with >105 LTV pools which are not deliverable into TBA securities
4. WALA represents the weighted average loan age presented in months
5. Average projected life CPR as of Mar 31, 2014

# DOLLAR ROLL IMPLIED FINANCING RATES

## TBA DOLLAR ROLL IMPLIED FINANCING RATES ARE WELL BELOW AVAILABLE REPO RATES DESPITE TAPERING OF THE FED'S ASSET PURCHASE PROGRAM

Short-Term Carry Differential
On Balance Sheet Repo vs. Dollar Roll
As of March 31, 2014 [1]

| | 30 YR 4.0% | | | 15 YR 3.0% | | |
|---|---|---|---|---|---|---|
| | Repo | Dollar Roll | Δ | Repo | Dollar Roll | Δ |
| Asset Yield | 3.44% | 3.44% | --% | 2.38% | 2.38% | --% |
| Repo / Roll Implied Funding Cost | 0.40 | (0.34) | (0.74) | 0.40 | (0.83) | (1.23) |
| **Gross Margin, Before Hedges** | **3.04%** | **3.78%** | **0.74%** | **1.98%** | **3.21%** | **1.23%** |

- **In the current environment, the financing benefits of dollar rolls exceed the benefits of holding certain specified pools**
  - ✓ Margins on TBA positions financed by dollar rolls are very compelling relative to repo financed MBS
  - ✓ The risk associated with TBA deliverability is materially lower than it was in the second half of 2013
- **Dollar roll income is tax efficient because it is offset against AGNC's prior year net capital loss carryforward rather than being treated as current year taxable earnings**

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1. Data as of March 31, 2014. 30-year FNMA 4.0% TBA (103.95) April-May price drop of 0.36%. 15-year FNMA 3.0% TBA (102.70) April-May price drop of 0.27%. Monthly gross margin equal to annualized 1 month carry before hedges using a hypothetical 1 month repo rate and 1 month roll price drop as of 3/31/14. Asset yields and implied financing calculated using the following assumptions; 7% and 8% CPR, 4.51% and 3.49% WAC, 336 and 155 WAM for 30-year FNMA 4.0% and 15-year FNMA 3.0%, respectively.

# FINANCING SUMMARY

## OUR FINANCING POSITION IS VERY STRONG, WITH SIGNIFICANT ACCESS TO ATTRACTIVE REPO FUNDING ACROSS A WIDE RANGE OF COUNTERPARTIES AND FINANCING TERMS

- **Average repo cost decreased to 0.43% as of Mar 31, 2014 from 0.45% as of Dec 31, 2013**
- **Repo counterparties totaled 34 as of Mar 31, 2014**
- **162 weighted average days to maturity as of Mar 31, 2014, an increase from 124 days as of Dec 31, 2013**

**Repurchase Agreements [1]**
As of Mar 31, 2014 - $ in millions

| Days to Maturity | Repo Outstanding % | Repo Outstanding $ | Interest Rate | Average Days to Maturity |
|---|---|---|---|---|
| ≤ 1 Month | 27% | $13,440 | 0.37% | 15 |
| > 1 to ≤ 3 Months | 35% | 17,396 | 0.38% | 54 |
| > 3 to ≤ 6 Months | 11% | 5,242 | 0.45% | 137 |
| > 6 to ≤ 9 Months | 9% | 4,560 | 0.51% | 232 |
| > 9 to ≤ 12 Months | 8% | 4,171 | 0.49% | 326 |
| > 12 to ≤ 24 Months | 7% | 3,232 | 0.57% | 517 |
| > 24 to ≤ 36 Months | 1% | 540 | 0.61% | 876 |
| > 36 Months | 2% | 999 | 0.66% | 1,599 |
| **Total / Wtd Avg** | **100%** | **$49,580** | **0.43%** | **162** |
| **As of Dec 31, 2013** | | | | |
| Total / Wtd Avg | 100% | $61,215 | 0.45% | 124 |

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1. Table excludes repurchase agreements of $0.1 B and $2.3 B associated with U.S. Treasury positions as of March 31, 2014 and December 31, 2013, respectively

# HEDGING SUMMARY

## OUR HEDGES ARE DESIGNED TO MITIGATE BOOK VALUE FLUCTUATIONS DUE TO INTEREST RATE CHANGES AND ARE NOT DESIGNED TO PROTECT AGAINST MARKET VALUE FLUCTUATIONS IN OUR ASSETS CAUSED BY CHANGES IN THE SPREAD BETWEEN OUR INVESTMENTS AND OTHER BENCHMARK RATES SUCH AS SWAP AND TREASURY RATES, WHICH IS THEREFORE A RISK THAT IS INHERENT TO OUR BUSINESS [1]

- **The combination of swaps, swaptions and treasury hedges totaled $60.8 billion and covered 94% of our repo, other debt and net TBA position as of Mar 31, 2014, compared to 86% as of Dec 31, 2013**
  - ✓ **Interest Rate Swaps**
    - $46.4 B notional pay fixed swaps
    - Net increase of $3.2 B from prior quarter
    - Covered 72% of repo, other debt and net TBA position as of Mar 31, 2014
  - ✓ **Payer Swaptions**
    - $8.0 B notional payer swaptions
    - Net decrease of $6.3 B from prior quarter
  - ✓ **Receiver Swaption**
    - $1.0 B notional receiver swaption added during the quarter
  - ✓ **Treasury Securities and Futures**
    - $7.4 B net short treasury position market value
    - Net increase of $7.2 B from prior quarter

**Hedge Portfolio Summary**
As of Mar 31, 2014 - $ in millions

| | Notional/ Market Value 3/31/2014 | Duration 3/31/2014 [2] | Net Hedge Gains/ (Losses) Q1 2014 [3] | Net Hedge Gains/ (Losses) Per Share Q1 2014 |
|---|---|---|---|---|
| Swaps | $(46,400) | (4.1) | $(254) | $(0.72) |
| Payer Swaptions | (8,000) | (1.1) | (105) | (0.30) |
| Receiver Swaption | 1,000 | 0.8 | -- | -- |
| Treasury Securities | (6,462) | (7.2) | 27 | 0.08 |
| Treasury Futures | (901) | (6.1) | (37) | (0.10) |
| **Total / Q1 2014** | **$(60,763)** | **(3.6)** | **$(369)** | **$(1.04)** |
| **As of Dec 31, 2013 / Q4 2013** | | | | |
| Total / Q4 2013 | $(57,654) | (3.2) | $292 | $0.78 |

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1. The amount of interest rate protection provided by our hedge portfolio may vary considerably based on management judgment, asset composition and general market conditions
2. Duration is a model estimate of interest rate sensitivity measured in years as of a point in time (see supplemental slides at the end of this presentation for additional information)
3. Net hedge gains/losses in the table above exclude periodic swap costs (a component of net spread income), TBA dollar roll income/loss and mark-to-market gains/losses on our net TBA position

# MANAGING MORTGAGE EXTENSION RISK [1]

## GIVEN THE COMPOSITION OF OUR PORTFOLIO, FURTHER ASSET EXTENSION RISK IS MINIMAL

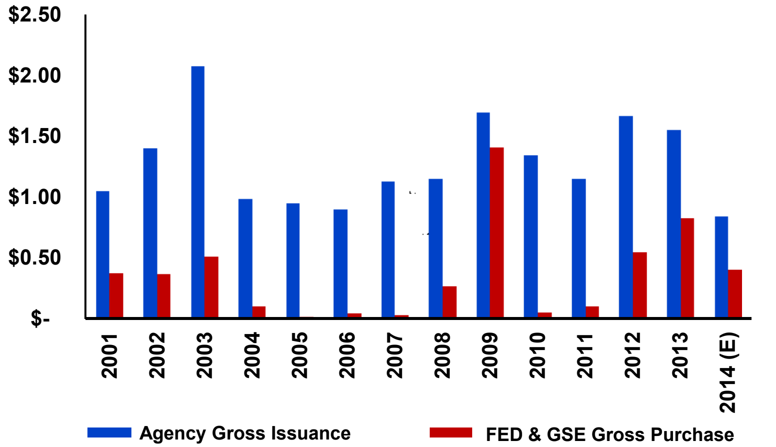
| Duration Gap Sensitivity [2,3] As of Mar 31, 2014 | | | |
|---|---|---|---|
| | **Duration 3/31/2014** | **Rates Up 100 Bps** | **Rates Up 200 Bps** |
| Mortgage Assets: [4] | | | |
| 30-Year MBS | 6.1 | 7.1 | 7.3 |
| 15-Year MBS | 4.2 | 4.7 | 4.8 |
| **Total Mortgage Assets** | **5.1** | **5.8** | **5.9** |
| Liabilities, Swaps and Treasuries | (3.8) | (3.8) | (3.8) |
| **Net Duration Gap without Swaptions** | **1.3** | **2.0** | **2.1** |
| Swaptions | (0.1) | (0.4) | (0.5) |
| **Net Duration Gap with Swaptions** | **1.2** | **1.6** | **1.6** |
| **As of Dec 31, 2013** | | | |
| **Net Duration Gap with Swaptions** | **1.5** | **1.8** | **1.8** |

- **Moderate portfolio rebalancing actions on an ongoing basis should allow us to further mitigate our interest rate risk exposure**

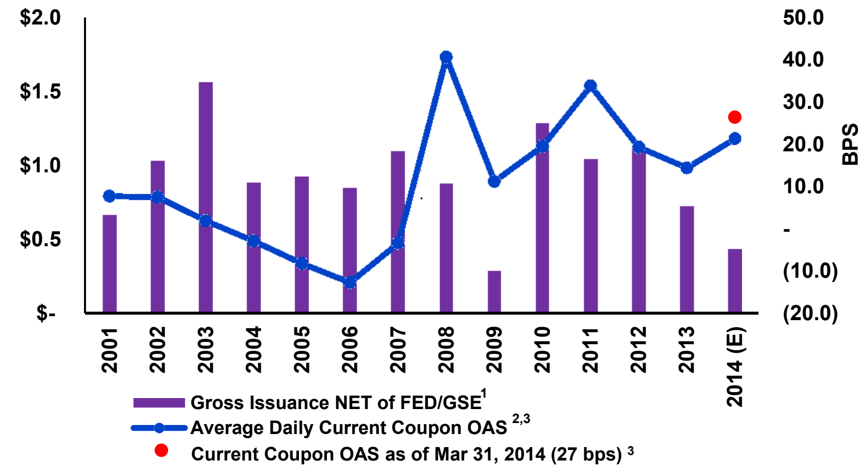
1. Extension risk is the risk that the duration of a mortgage security increases in a rising rate environment
2. Durations are expressed in years. Liability, swap, U.S. Treasury and swaption durations are expressed in asset units
3. The estimated durations included in the table above are as of a point in time and are derived from models that are dependent on inputs and assumptions provided by third parties as well as by our investment team and, accordingly, actual results could differ materially from these estimates. The sensitivity analysis assumes an instantaneous change in interest rates and, consequently, does not include the potential impact of ongoing portfolio rebalancing actions
4. Mortgage assets include net TBA position. 15-year MBS position includes 20-year fixed rate MBS

# SUPPLY/DEMAND EQUATION IN AGENCY MBS REMAINS FAVORABLE DESPITE "TAPERING"

**Gross Supply vs. FED/GSE Gross Purchases [1]**
*($ in Trillions)*




**Remaining Gross Supply vs. Current Coupon OAS**
*($ in Trillions)*




- **2014 gross MBS supply is expected to be $843 billion, a post-crisis low, on declining refinance volumes and low purchase activity due to constrained credit availability and weaker affordability**
  - ✓ The expected gross supply of $843 billion is about $450 billion lower than the 14 year average of $1.3 trillion
  - ✓ Supply projection assumes FED tapering completed in October of 2014 and paydown reinvestment through year end

- **2014 estimated gross issuance of $438 billion, net of FED/GSE purchases, is the lowest since 2009**
  - ✓ It is also $515 billion lower than the 14 year average of $916 billion
- **Mortgage OASs (MBS spread to swaps net of embedded options) remain at relatively wide levels**
  - ✓ MBS current coupon option adjusted spreads are wider today than many prior periods with minimal FED and GSE purchase activity (2004-2007)

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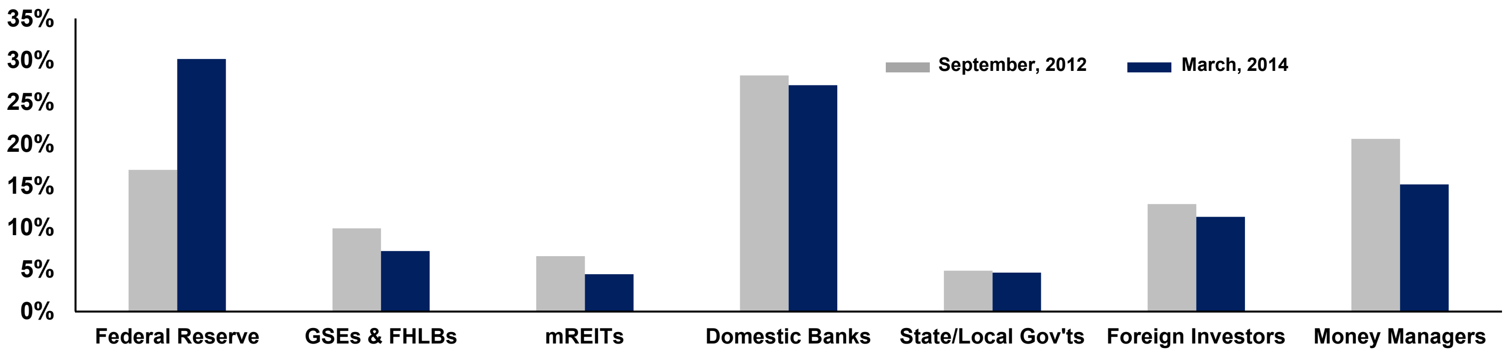
1. Data from Nomura Securities International, Inc. and Morgan Stanley
2. Daily average current coupon option adjusted spreads ("OAS") for each period presented. 2014(E) includes daily average through Mar 31, 2014.
3. Source: Average of data from Nomura (Yieldbook), Locus, Barclays Live and JP Morgan

# CHANGES TO THE INVESTOR BASE FOR AGENCY MBS ALSO SUPPORTIVE OF MBS MARKET

## THE FED NOW OWNS A VERY LARGE PERCENTAGE OF THE OUTSTANDING BALANCE OF AGENCY MBS WHILE PRIVATE INVESTORS HAVE REDUCED HOLDINGS

**Ownership Percentage of MBS Market – Pre and Post QE3 [1]**




- ♦ **The FED's holding of agency MBS has almost doubled to around 30% of the Agency MBS market, or $1.6 trillion**
  - ✓ FED expected to continue reinvesting paydowns on its Agency MBS holdings well past the conclusion of tapering process
- ♦ **Mortgage REIT holdings of agency MBS have declined significantly but leverage levels are now at historical lows**
- ♦ **Bank portfolio holdings are slightly lower despite material increases in deposits**
- ♦ **Foreign investors have reduced their holdings since QE3 but this trend could reverse given the significant repricing of US fixed income versus European and Japanese Sovereign debt**
- ♦ **Money managers have reduced their holdings by about $200 billion and are now significantly underweight agency MBS**



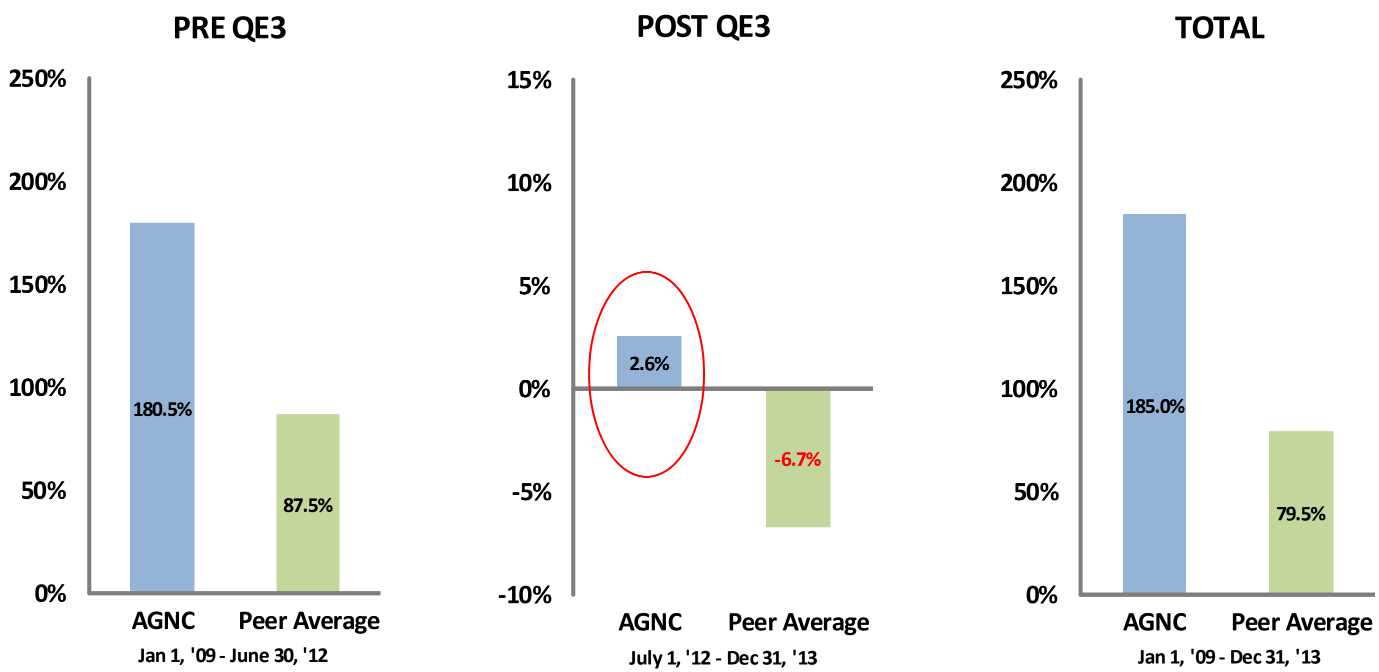
1. Data from Nomura Securities International, Inc.

# SUPPLEMENTAL SLIDES

# TOTAL ECONOMIC RETURNS: PRE AND POST QE3

## AGNC'S ECONOMIC RETURN SINCE INCEPTION AND THROUGH THE RECENT CHALLENGING ENVIRONMENT HAS OUTPERFORMED ITS PEER GROUP DUE IN PART TO AGNC'S ACTIVE APPROACH TO PORTFOLIO MANAGEMENT

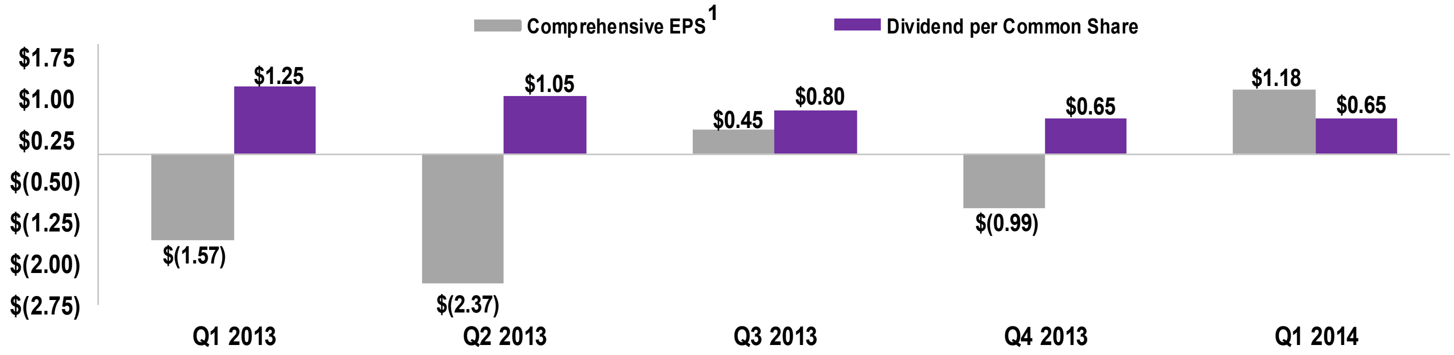
**AGNC vs. Peer Group Average**
**Total Historical Economic Returns**
**Jan 1, 2009 – Dec 31, 2013 [1]**



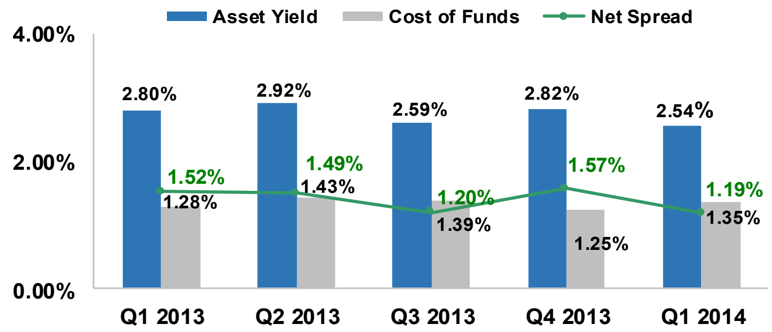

1. Economic return on common equity represents the sum of the change in net asset value per common share and dividends declared on common stock during the period over the beginning net asset value per common share. Peer group average consists of HTS, CMO, NLY, ANH, CYS and ARR on an unweighted basis

# AGNC Historical Overview

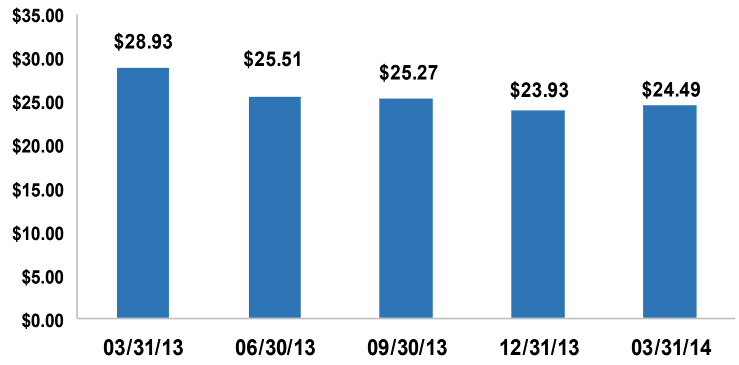
## Earnings and Dividends per Common Share




## Net Spread [2]




## Net Book Value Per Common Share [3]

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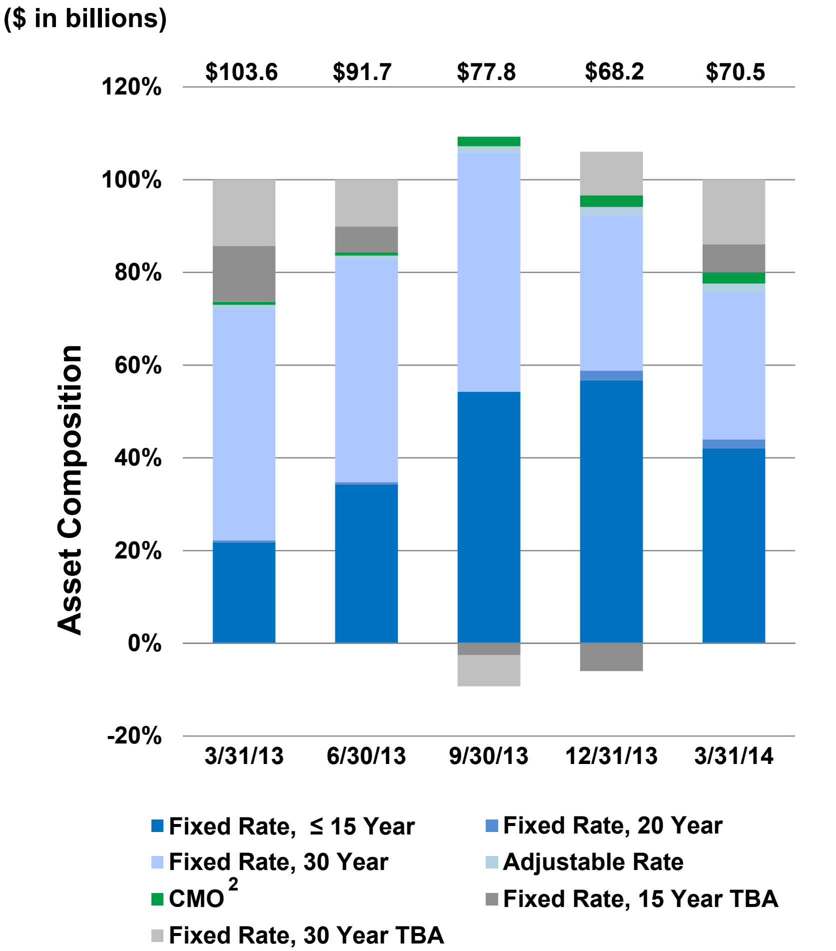
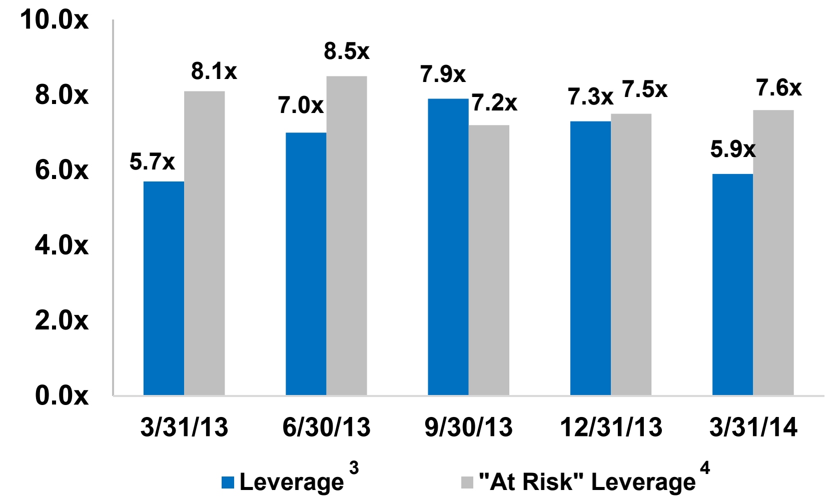
1. Comprehensive earnings per common share is a GAAP measure that consists of net income/loss per common share plus unrealized gains/losses on agency MBS and designated hedges per common share recognized in other comprehensive income, a separate component of equity
2. Represents average per quarter, excludes net carry income/loss from the Company's TBA mortgage portfolio and other supplemental hedge costs such as swaption, short treasury and TBA costs
3. Net book value per common share calculated as total stockholders' equity, less the Series A Preferred Stock liquidation preference, divided by total common shares outstanding

# AGNC Historical Overview

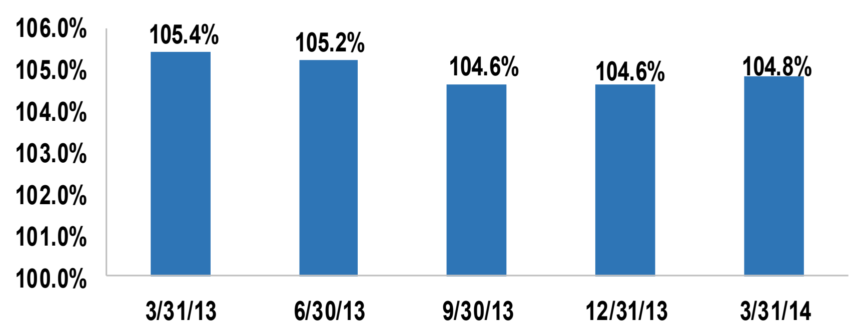
## Portfolio [1]




## Leverage




## Amortized Cost Basis

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1. Amounts include the Company's net TBA mortgage position
2. Includes interest-only, inverse interest-only and principal-only securities
3. Leverage calculated as sum of agency MBS repurchase agreements, net payable/receivable for agency MBS not yet settled and other debt divided by the sum of total stockholders' equity less the fair value of investments in REIT equity securities. Leverage excludes U.S. Treasury repurchase agreements of $0.1 billion, $2.3 billion, $4.1 billion and $2.1 billion as of Mar 31, 2014, Dec 31, Sept 30 and June 30, 2013, respectively
4. "At Risk" leverage includes the components of leverage plus implied leverage from the net TBA mortgage position

# BALANCE SHEETS

| ($ in millions, except per share data, unaudited except 12/31/13) | 3/31/14 | 12/31/13 | 9/30/13 | 6/30/13 | 3/31/13 |
|---|---|---|---|---|---|
| Agency Securities, at Fair Value | $54,960 | $64,482 | $83,805 | $75,926 | $74,874 |
| Agency Securities Transferred to Consolidated Variable Interest Entities, at Fair Value | 1,417 | 1,459 | 1,204 | 1,281 | 1,421 |
| U.S. Treasury Securities, at Fair Value | 196 | 3,822 | 4,823 | 3,671 | -- |
| REIT Equity Securities, at Fair Value | 352 | 237 | -- | -- | -- |
| Cash and Cash Equivalents | 1,726 | 2,143 | 2,129 | 2,923 | 2,826 |
| Restricted Cash | 269 | 101 | 77 | 1,216 | 499 |
| Derivative Assets, at Fair Value | 686 | 1,194 | 1,246 | 1,876 | 480 |
| Receivable for Securities Sold | 799 | 652 | 1,807 | 2,070 | 734 |
| Receivable under Reverse Repurchase Agreements | 6,685 | 1,881 | 1,808 | 9,430 | 12,291 |
| Other Assets | 228 | 284 | 372 | 270 | 244 |
| **Total Assets** | **$67,318** | **$76,255** | **$97,271** | **$98,663** | **$93,369** |
| Repurchase Agreements | $49,729 | $63,533 | $82,473 | $72,451 | $66,260 |
| Debt of Consolidated Variable Interest Entities, at Fair Value | 874 | 910 | 736 | 783 | 862 |
| Payable for Securities Purchased | 324 | 118 | 979 | 3,167 | 259 |
| Derivative Liabilities, at Fair Value | 417 | 422 | 1,015 | 1,544 | 1,217 |
| Dividends Payable | 232 | 235 | 311 | 420 | 499 |
| Obligation to Return Securities Borrowed under Reverse Repurchase Agreements, at Fair Value | 6,658 | 1,848 | 1,801 | 9,931 | 12,548 |
| Accounts Payable and Other Accrued Liabilities | 270 | 492 | 71 | 87 | 82 |
| **Total Liabilities** | **58,504** | **67,558** | **87,386** | **88,383** | **81,727** |
| Preferred Equity at Aggregate Liquidation Preference | 173 | 173 | 173 | 173 | 173 |
| Common Equity | 8,641 | 8,524 | 9,712 | 10,107 | 11,469 |
| **Total Stockholders' Equity** | **8,814** | **8,697** | **9,885** | **10,280** | **11,642** |
| **Total Liabilities and Stockholders' Equity** | **$67,318** | **$76,255** | **$97,271** | **$98,663** | **$93,369** |
| | | | | | |
| **Other Supplemental Data:** | | | | | |
| **Net TBA Long/(Short), at Fair Value [1]** | **$14,102** | **$2,119** | **$(7,256)** | **$14,514** | **$27,283** |
| **Leverage [2]** | **5.9x** | **7.3x** | **7.9x** | **7.0x** | **5.7x** |
| **"At Risk" Leverage [3]** | **7.6x** | **7.5x** | **7.2x** | **8.5x** | **8.1x** |
| **Net Book Value Per Common Share [4]** | **$24.49** | **$23.93** | **$25.27** | **$25.51** | **$28.93** |

1. TBAs are reported in derivative assets/liabilities in the above balance sheet at their net carrying value (fair value less cost basis)
2. Leverage calculated as sum of agency MBS repurchase agreements, net payable/receivable for agency MBS not yet settled and debt of consolidated variable interest entities ("other debt") divided by the sum of total stockholders' equity less the fair value of investments in REIT equity securities. Leverage excludes U.S. Treasury repurchase agreements of $0.1 billion, $2.3 billion, $4.1 billion and $2.1 billion as of Mar 31, 2014 and Dec 31, Sept 30 and June 30, 2013, respectively
3. "At risk" leverage includes the components of leverage plus our net TBA dollar roll position (at cost)
4. Net book value per common share calculated as stockholders' equity, less the Series A Preferred Stock liquidation preference, divided by total common shares outstanding

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# INCOME STATEMENTS

| ($ in millions, except per share data) (Unaudited) | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 | Q1 2013 |
|---|---|---|---|---|---|
| Interest Income | $399 | $542 | $558 | $545 | $547 |
| Interest Expense | (108) | (120) | (145) | (131) | (140) |
| **Net Interest Income** | **291** | **422** | **413** | **414** | **407** |
| (Loss) Gain on Sale of Agency Securities, Net | (19) | (667) | (733) | 17 | (26) |
| (Loss) Gain on Derivative Instruments and Other Securities, Net | (378) | 184 | (339) | 1,444 | (98) |
| **Total Other (Loss) Income, Net** | **(397)** | **(483)** | **(1,072)** | **1,461** | **(124)** |
| Management Fee | (29) | (31) | (35) | (37) | (33) |
| General and Administrative Expenses | (6) | (6) | (7) | (9) | (9) |
| **Total Operating Expenses** | **(35)** | **(37)** | **(42)** | **(46)** | **(42)** |
| (Loss) Income before Income Tax Provision | (141) | (98) | (701) | 1,829 | 241 |
| Income Tax Provision, Net | -- | (3) | -- | -- | (10) |
| **Net (Loss) Income** | **(141)** | **(101)** | **(701)** | **1,829** | **231** |
| Dividend on Preferred Stock | (3) | (3) | (3) | (3) | (3) |
| **Net (Loss) Income (Attributable) Available to Common Shareholders** | **$(144)** | **$(104)** | **$(704)** | **$1,826** | **$228** |
| | | | | | |
| **Net (Loss) Income** | **$(141)** | **$(101)** | **$(701)** | **$1,829** | **$231** |
| Unrealized Gain (Loss) on Available-for-Sale Securities, Net | 521 | (311) | 833 | (2,813) | (837) |
| Unrealized Gain on Derivative Instruments, Net | 43 | 46 | 47 | 48 | 49 |
| **Other Comprehensive Income (Loss)** | **564** | **(265)** | **880** | **(2,765)** | **(788)** |
| **Comprehensive Income (Loss)** | **423** | **(366)** | **179** | **(936)** | **(557)** |
| Dividend on Preferred Stock | (3) | (3) | (3) | (3) | (3) |
| **Comprehensive Income (Loss) Available (Attributable) to Common Shareholders** | **$420** | **$(369)** | **$176** | **$(939)** | **$(560)** |
| | | | | | |
| **Weighted Average Common Shares Outstanding – Basic and Diluted** | **354.8** | **373.0** | **390.6** | **396.4** | **356.2** |
| **Net (Loss) Income per Common Share** | **$(0.41)** | **$(0.28)** | **$(1.80)** | **$4.61** | **$0.64** |
| **Comprehensive Income (Loss) per Common Share** | **$1.18** | **$(0.99)** | **$0.45** | **$(2.37)** | **$(1.57)** |
| **Estimated REIT Taxable Income per Common Share** | **$0.47** | **$0.65** | **$0.29** | **$1.04** | **$0.50** |
| **Dividends Declared per Common Share** | **$0.65** | **$0.65** | **$0.80** | **$1.05** | **$1.25** |

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Note: Amounts may not total due to rounding

# RECONCILIATION OF GAAP NET INTEREST INCOME TO NET SPREAD AND DOLLAR ROLL INCOME/LOSS[1]

| ($ in millions, except per share data) (Unaudited) | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 | Q1 2013 |
|---|---|---|---|---|---|
| **Interest Income** | **$399** | **$542** | **$558** | **$545** | **$547** |
| **Interest Expense:** | | | | | |
| Repurchase Agreements and Other Debt | (65) | (74) | (98) | (83) | (91) |
| Interest Rate Swap Periodic Costs [2] | (43) | (46) | (47) | (48) | (49) |
| **Total Interest Expense** | **(108)** | **(120)** | **(145)** | **(131)** | **(140)** |
| **Net Interest Income** | **291** | **422** | **413** | **414** | **407** |
| Other Interest Rate Swap Periodic Costs [3,4] | (83) | (104) | (131) | (105) | (84) |
| Dividend on REIT Equity Securities [4] | 10 | 5 | -- | -- | -- |
| TBA Dollar Roll Income (Loss) [4] | 48 | (5) | (12) | 195 | 142 |
| **Adjusted Net Interest and Dollar Roll Income** | **266** | **318** | **270** | **504** | **465** |
| **Total Operating Expenses** | **(35)** | **(37)** | **(42)** | **(46)** | **(42)** |
| **Net Spread and Dollar Roll Income** | **231** | **281** | **228** | **458** | **423** |
| Dividend on Preferred Stock | (3) | (3) | (3) | (3) | (3) |
| **Net Spread and Dollar Roll Income Available to Common Shareholders** | **228** | **278** | **225** | **455** | **420** |
| Estimated "Catch Up" Premium Amortization Cost (Benefit) due to Change in CPR Forecast | **25** | **(28)** | **12** | **(55)** | **(32)** |
| **Net Spread and Dollar Roll Income, Excluding "Catch Up" Amortization Available to Common Shareholders** | **$253** | **$250** | **$237** | **$400** | **$388** |
| | | | | | |
| **Weighted Average Common Shares Outstanding – Basic and Diluted** | **354.8** | **373.0** | **390.6** | **396.4** | **356.2** |
| **Net Spread and Dollar Roll Income per Common Share** | **$0.64** | **$0.75** | **$0.58** | **$1.15** | **$1.18** |
| **Net Spread and Dollar Roll Income, Excluding "Catch Up" Amortization per Common Share** | **$0.71** | **$0.67** | **$0.61** | **$1.01** | **$1.09** |

Note: Amounts may not total due to rounding

1. Table includes non-GAAP financial measures. Please refer to additional information regarding non-GAAP financial measures at the end of this presentation
2. Voluntarily discontinued hedge accounting under GAAP as of Sept 30, 2011. Accumulated OCI on de-designated interest rate swaps is being amortized on a straight-line basis over the remaining swap terms into interest expense. All other periodic interest costs, termination fees and mark-to-market adjustments associated with interest rate swaps are reported in other income (loss), net pursuant to GAAP
3. Other interest rate swap periodic costs represent periodic interest costs on the Company's interest rate swap portfolio in excess of amortized amounts reclassified from accumulated OCI into interest expense. Other interest rate swap periodic costs exclude interest rate swap termination fees and mark-to-market adjustments on interest rate swaps
4. Reported in gain (loss) on derivative instruments and other securities, net in the accompanying income statement

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# RECONCILIATION OF GAAP NET INCOME TO ESTIMATED TAXABLE INCOME [1]

| ($ in millions, except per share data)<br>(Unaudited) | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 | Q1 2013 |
|---|---|---|---|---|---|
| **Net (Loss) Income** | **$(141)** | **$(101)** | **$(701)** | **$1,829** | **$231** |
| **Book to Tax Differences:** | | | | | |
| Premium Amortization, Net | 31 | (21) | (6) | (75) | (34) |
| Realized Loss (Gain), Net | 36 | (92) | (255) | (15) | (53) |
| Capital Loss (Carryforward)/Excess over Capital Gains [2] | (102) | 936 | 849 | -- | -- |
| Unrealized Loss (Gain), Net | 346 | (480) | 229 | (1,324) | 30 |
| Other | -- | 2 | -- | (1) | 6 |
| **Total Book to Tax Differences** | **311** | **345** | **817** | **(1,415)** | **(51)** |
| **Estimated REIT Taxable Income** | **$170** | **$244** | **$116** | **$414** | **$180** |
| Dividend on Preferred Stock | (3) | (3) | (3) | (3) | (3) |
| **Estimated REIT Taxable Income Available to Common Shareholders** | **$167** | **$241** | **$113** | **$411** | **$177** |
| **Weighted Average Common Shares Outstanding – Basic and Diluted** | **354.8** | **373.0** | **390.6** | **396.4** | **356.2** |
| **Estimated REIT Taxable Income per Common Share** | **$0.47** | **$0.65** | **$0.29** | **$1.04** | **$0.50** |
| **Estimated Cumulative Undistributed REIT Taxable Income per Common Share [3]** | **$0.42** | **$0.59** | **$0.57** | **$1.07** | **$1.08** |

| | | | | | |
|---|---|---|---|---|---|
| **Beginning Cumulative Non-Deductible Capital Losses** | **$1,785** | **$849** | **$ --** | **$ --** | **$ --** |
| Capital Loss (Carryforward)/Excess over Capital Gain | (102) | 936 | 849 | -- | -- |
| **Ending Cumulative Non-Deductible Capital Losses** | **$1,683** | **$1,785** | **$849** | $ -- | $ -- |
| **Ending Cumulative Non-Deductible Capital Losses per Common Share** | **$4.77** | **$5.01** | **$2.21** | $ -- | $ -- |

Amounts may not total due to rounding

1. Table includes non-GAAP financial measures. Please refer to information regarding non-GAAP financial measures at the end of this presentation
2. Capital losses in excess of capital gains are not deductible from ordinary taxable income, but may be carried forward for up to five years and applied against future net capital gains. As of Mar 31, 2014, $1.7 B of capital losses were available to offset future net capital gains
3. Estimated undistributed taxable income ("UTI") per common share is net of dividends declared. UTI excludes cumulative non-deductible capital losses

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# NET BOOK VALUE ROLL FORWARD

| (In millions, except per share data) (Unaudited) | Q1 2014 Balance | Common Shares Outstanding | Net Book Value per Common Share |
|---|---|---|---|
| **Beginning Net Common Equity [1]** | **$8,524** | **356.2** | **$23.93** |
| Net Loss | (141) | | |
| Other Comprehensive Income | 564 | | |
| Dividend on Common Stock | (229) | | |
| Dividend on Preferred Stock | (3) | | |
| Repurchase of Common Stock, Net of Expenses | (74) | (3.4) | $(22.10) |
| **Ending Net Common Equity [1]** | **$8,641** | **352.8** | **$24.49** |

Amounts may not total due to rounding

1. Net common equity represents stockholders' equity net of the Company's Series A Preferred Stock liquidation preference of $25 per preferred share (or $173 million)

# BUSINESS ECONOMICS

| (unaudited) | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 | Q1 2013 |
|---|---|---|---|---|---|
| Asset Yield [1] | 2.54% | 2.82% | 2.59% | 2.92% | 2.80% |
| Cost of Funds [1,2] | (1.35)% | (1.25)% | (1.39)% | (1.43)% | (1.28)% |
| **Net Interest Rate Spread** | **1.19%** | **1.57%** | **1.20%** | **1.49%** | **1.52%** |
| **Leverage [3]** | **6.7x** | **7.6x** | **7.8x** | **5.9x** | **6.5x** |
| Leveraged Net Interest Rate Spread | 7.90% | 11.85% | 9.38% | 8.72% | 9.88% |
| Plus Asset Yield | 2.54% | 2.82% | 2.59% | 2.92% | 2.80% |
| **Gross Return on Equity (“ROE”) Before Expenses and Other Income** | **10.44%** | **14.67%** | **11.97%** | **11.64%** | **12.68%** |
| Management Fees as a % of Equity | (1.31)% | (1.31)% | (1.37)% | (1.33)% | (1.25)% |
| Other Operating Expenses as a % of Equity | (0.27)% | (0.25)% | (0.29)% | (0.33)% | (0.34)% |
| **Total Operating Expenses as a % of Equity** | **(1.58)%** | **(1.56)%** | **(1.66)%** | **(1.66)%** | **(1.59)%** |
| **Net Spread Income ROE** | **8.86%** | **13.11%** | **10.31%** | **9.98%** | **11.09%** |
| Other Miscellaneous [4] | (1.06)% | (1.30)% | (0.81)% | (0.60)% | (0.60)% |
| Realized Other Income/(Loss), Net of Tax | 1.46% | (36.26)% | (28.10)% | 8.66% | (0.85)% |
| Unrealized Other (Loss)/Income | (15.64)% | 20.19% | (9.02)% | 47.14% | (1.00)% |
| **Net (Loss) Income ROE** | **(6.38)%** | **(4.26)%** | **(27.62)%** | **65.18%** | **8.64%** |
| Other Comprehensive Income/(Loss) | 25.49% | (11.15)% | 34.69% | (98.53)% | (29.49)% |
| **Comprehensive Income/(Loss) ROE** | **19.11%** | **(15.41)%** | **7.07%** | **(33.35)%** | **(20.85)%** |
| Comprehensive Income/(Loss) on Preferred Equity in Excess of Preferred Dividend | 0.24% | (0.41)% | (0.01)% | (0.64)% | (0.47)% |
| **Net Comprehensive Income/(Loss) ROE Available/(Attributable) to Common Shareholders** | **19.35%** | **(15.82)%** | **7.06%** | **(33.99)%** | **(21.31)%** |

1. Asset yield, cost of funds and net interest rate spread exclude net TBA position
2. Cost of funds includes agency MBS repo, other debt and periodic swap interest costs. Net interest rate spread and cost of funds exclude other supplemental hedges, such as swaptions and U.S. Treasury positions and U.S. Treasury repos
3. Average leverage excludes net TBA position and is adjusted to exclude stockholders’ equity allocated to investment in REIT equity securities. Average “at risk” leverage, including our net TBA position, was 7.2x, 7.5x, 7.8x, 8.4x, and 8.2x for Q1 2014 and Q4, Q3, Q2, and Q1 2013, respectively
4. Other miscellaneous reflects the impact of differences between the use of daily averages used for investment securities and repurchase agreements and the month-end average used for stockholders’ equity, cash and cash equivalents, restricted cash, other non investment assets and liabilities, and other immaterial rounding differences

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# FIXED RATE AGENCY SECURITIES – MBS AND NET TBA POSITION

## $ IN MILLIONS – AS OF MAR 31, 2014

| MBS Coupon [1] | Par Value [2] | Market Value [2] | % Lower Loan Balance / HARP [2,3,4] | MBS Amortized Cost Basis [5] | MBS Average WAC [5,6] | MBS Average Age (Months) [5] | MBS Actual 1 Month CPR [5,7] | Duration (Years) [2,8] |
|---|---|---|---|---|---|---|---|---|
| ***≤15 YR Mortgage Securities*** | | | | | | | | |
| ≤ 2.5% | $9,214 | $9,223 | 29% | 102.1% | 2.96% | 17 | 5% | 4.9 |
| 3.0% | 9,538 | 9,796 | 37% | 103.1% | 3.49% | 25 | 7% | 4.3 |
| 3.5% | 8,164 | 8,580 | 76% | 104.0% | 3.93% | 36 | 10% | 3.6 |
| 4.0% | 5,386 | 5,735 | 89% | 104.8% | 4.40% | 40 | 12% | 3.2 |
| 4.5% | 568 | 608 | 97% | 105.2% | 4.87% | 43 | 14% | 3.1 |
| ≥ 5.0% | 8 | 8 | 24% | 104.3% | 6.48% | 76 | 2% | 2.5 |
| **Subtotal** | $32,878 | $33,950 | 55% | 103.5% | 3.72% | 30 | 8% | 4.0 |
| ***20 YR Mortgage Securities*** | | | | | | | | |
| ≤ 3.0% | $345 | $345 | 28% | 99.2% | 3.55% | 10 | 2% | 5.4 |
| 3.5% | 757 | 779 | 63% | 102.3% | 4.05% | 13 | 4% | 4.6 |
| 4.0% | 89 | 94 | 47% | 104.9% | 4.53% | 31 | 8% | 3.8 |
| 4.5% | 113 | 122 | 97% | 107.1% | 4.89% | 40 | 11% | 2.8 |
| ≥ 5.0% | 6 | 7 | 0% | 106.5% | 5.90% | 70 | 21% | 1.8 |
| **Subtotal** | $1,310 | $1,347 | 56% | 102.1% | 4.04% | 16 | 5% | 4.5 |
| ***30 YR Mortgage Securities*** | | | | | | | | |
| ≤ 3.0% | $283 | $273 | 56% | 101.8% | 3.69% | 14 | 5% | 7.7 |
| 3.5% | 12,851 | 12,929 | 65% | 105.9% | 4.02% | 22 | 6% | 7.0 |
| 4.0% | 16,009 | 16,634 | 54% | 106.3% | 4.47% | 26 | 8% | 5.6 |
| 4.5% | 1,790 | 1,929 | 162% | 106.8% | 4.95% | 36 | 10% | 4.8 |
| 5.0% | 204 | 223 | 65% | 106.4% | 5.45% | 72 | 13% | 3.1 |
| ≥ 5.5% | 254 | 280 | 36% | 108.5% | 6.24% | 87 | 17% | 2.2 |
| **Subtotal** | $31,391 | $32,268 | 65% | 106.2% | 4.38% | 27 | 7% | 6.1 |
| **Total Fixed [8]** | **$65,579** | **$67,565** | **59%** | **104.6%** | **4.01%** | **28** | **8%** | **5.0** |

1. The wtd/avg coupon on fixed rate securities held as of Mar 31, 2014 was 3.54%, excluding net long TBA mortgage position, and 3.50%, including net long TBA position
2. Excluding net long TBA position, total fixed-rate MBS as of Mar 31, 2014 had a par value of $51,670, market value of $53,463, %LLB/HARP of 75% and avg duration of 4.8 years
3. Lower loan balance defined as pools backed by original loan balances of up to $150 K. HARP defined as pools backed by 100% refinance loans with original LTVs ≥ 80%
4. Percentages in table can exceed 100% of total market value due to inclusion of TBA positions
5. Average MBS cost basis, WAC, Age and CPR exclude net TBA position
6. Average WAC represents the weighted average coupon of the underlying collateral
7. Actual 1 month annualized CPR published during Apr 2014 for agency securities held as of Mar 31, 2014
8. Duration derived from models that are dependent on inputs and assumptions provided by third parties as well as by our investment team and, accordingly, actual results could differ materially from these estimates. Refer to the supplemental slide at the end of this presentation for additional information

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# REPO COUNTERPARTY CREDIT RISK

## OUR REPO FUNDING IS WELL DIVERSIFIED BY COUNTERPARTY AND GEOGRAPHICALLY

- **Repo counterparties well diversified**
- **Maintained excess capacity with most of our counterparties**
- **Less than 4% of our equity is at risk with any one counterparty**
- **Less than 12% of our equity is at risk with the top 5 counterparties**

| Counterparty Region | Number of Counterparties | Percent of Repo Funding |
|---|---|---|
| **North America** | 18 | 64% |
| **Asia** | 5 | 13% |
| **Europe** | 11 | 23% |
| **Total** | 34 | 100% |

| Counterparty Region | Counterparty Rank | Counterparty Exposure as a % of NAV [1,2] |
|---|---|---|
| **North America** | 1 | 3.63% |
| | 2 | 1.95% |
| | 3 | 1.94% |
| | 4 | 1.83% |
| | 5 | 1.81% |
| | 6-18 | 9.48% |
| **Asia** | 1 | 1.52% |
| | 2 | 1.04% |
| | 3 | 0.58% |
| | 4 | 0.44% |
| | 5 | 0.02% |
| **Europe** | 1 | 2.61% |
| | 2 | 1.53% |
| | 3 | 0.83% |
| | 4 | 0.67% |
| | 5 | 0.35% |
| | 6-11 | 0.94% |

| | |
|---|---|
| **Total Exposure** | 31.17% |
| **Top 5 Exposure** | 11.96% |

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1. Note: All figures as of Mar 31, 2014
2. Excludes $0.9 B of other debt in connection with the consolidation of a structured transaction under GAAP
3. Counterparty exposure with regard to agency collateral pledged under repo agreements. Amounts do not include exposure with regard to collateral pledged under derivative agreements, prime brokerage agreements and other debt

# HEDGE INSTRUMENTS

## OUR PRIMARY OBJECTIVE IS NOT TO ELIMINATE RISK OR TO LOCK IN A PARTICULAR NET INTEREST MARGIN, BUT TO MAINTAIN OUR NET BOOK VALUE WITHIN REASONABLE BANDS OVER A RANGE OF INTEREST RATE SCENARIOS

- **Interest Rate Swaps**
  - ✓ $46.4 B notional pay fixed swap book as of Mar 31, 2014
    - $5.9 B of swaps added during the quarter
      - 7.9 years average maturity, 2.97% average pay rate and 1.9 years average forward start date as of Mar 31, 2014
    - $2.8 B of swaps terminated during the quarter
  - ✓ Covers 72% of repo, other debt and net TBA position
- **Payer Swaptions**
  - ✓ $8.0 B notional payer swaptions as of Mar 31, 2014
    - $1.0 B of payer swaptions added at a cost of $15 MM
    - $7.3 B payer swaptions expired or terminated for net realized losses of $81 MM
    - 1.0 year average remaining option term, 5.7 years average underlying swap term
- **Receiver Swaption**
  - ✓ $1.0 B notional receiver swaption added at a cost of $3 MM during the quarter

As of March 31, 2014 ($ in Millions)

**Interest Rate Swaps**

| Years to Maturity | Notional Amount [1] | Pay Rate [2] | Receive Rate [3] | Average Maturity [4] |
|---|---|---|---|---|
| ≤ 3 Years | $16,650 | 1.55% | 0.18% | 1.4 |
| > 3 to ≤ 5 Years | 10,575 | 1.29% | 0.24% | 4.0 |
| > 5 to ≤ 7 Years | 6,250 | 2.09% | 0.25% | 5.9 |
| > 7 to ≤ 10 Years | 10,175 | 2.51% | 0.24% | 8.5 |
| > 10 Years | 2,750 | 3.17% | 0.24% | 14.1 |
| **Total / Wtd Avg** | **$46,400** | **1.87%** | **0.21%** | **4.9** |
| **As of Dec 31, 2013** | | | | |
| Total / Wtd Avg | $43,250 | 1.70% | 0.22% | 4.7 |

**Payer Swaptions**

| Expiration | Notional Amount | Cost | Market Value | Pay Rate | Swap Term (Years) |
|---|---|---|---|---|---|
| ≤ 1 Year | $4,650 | $111 | $44 | 2.98% | 6.4 |
| > 1 to ≤ 2 Years | 2,450 | 60 | 34 | 3.55% | 4.5 |
| > 2 to ≤ 3 Years | 900 | 23 | 15 | 3.99% | 5.4 |
| **Total / Wtd Avg** | **$8,000** | **$194** | **$93** | **3.27%** | **5.7** |
| **As of Dec 31, 2013** | | | | | |
| Total / Wtd Avg | $14,250 | $335 | $258 | 3.09% | 7.0 |

**Receiver Swaption**

| Expiration | Notional Amount | Cost | Market Value | Receive Rate | Swap Term (Years) |
|---|---|---|---|---|---|
| **1 Year** | **$1,000** | **$3** | **$3** | **2.26%** | **10.0** |
| **As of Dec 31, 2013** | | | | | |
| Total / Wtd Avg | $ -- | $ -- | $ -- | -- % | -- |

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1. Notional amount includes forward starting swaps of $9.5 billion and $4.0 billion as of Mar 31, 2014 and Dec 31, 2013, respectively, with an average forward start date of 1.9 years
2. Weighted average pay rate includes forward starting swaps. Excluding forward starting swaps, the weighted average pay rate was 1.57% as of Mar 31, 2014 and Dec 31, 2013.
3. Weighted average receive rate excludes forward starting swaps.
4. Weighted average maturity measured from period end through maturity date.

# OTHER HEDGE AND DERIVATIVE INSTRUMENTS

## WE CONTINUE TO USE A VARIETY OF HEDGING INSTRUMENTS TO MANAGE INTEREST RATE RISK

- **Treasury Securities**
  - ✓ $6.5 B net short treasury position market value
- **Treasury Futures**
  - ✓ $901 MM short treasury futures market value
- **TBA Mortgages**
  - ✓ $14.1 B net long position market value
- **Total Hedge Portfolio**
  - ✓ Positions actively managed
  - ✓ 94% of our repo, other debt position and net TBA position covered by swap, swaption, and treasury positions as of Mar 31, 2014, compared to 86% as of Dec 31, 2013

**Treasury Securities**
As of Mar 31, 2014 - $ in Millions

| Maturity | Face Amount Net Long / (Short) | Market Value Net Long / (Short) |
|---|---|---|
| 5 Year | $(2,656) | $(2,633) |
| 7 Year | 200 | 196 |
| 10 Year | (4,045) | (3,939) |
| 30 Year | (85) | (86) |
| **Total** | **$(6,586)** | **$(6,462)** |
| **As of Dec 31, 2013** | | |
| Total | $1,920 | $1,974 |

**Net TBA Position**
As of Mar 31, 2014 - $ in Millions

| Term | Face Amount Net Long / (Short) | Market Value Net Long / (Short) |
|---|---|---|
| 15 Year | $4,293 | $4,300 |
| 30 Year | 9,616 | 9,802 |
| **Total** | **$13,909** | **$14,102** |
| **As of Dec 31, 2013** | | |
| Total | $2,119 | $2,271 |

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# DURATION GAP INFORMATION

## DURATION GAP IS AN ESTIMATE OF THE DIFFERENCE IN THE INTEREST RATE PRICE SENSITIVITY OF OUR ASSETS RELATIVE TO OUR LIABILITIES AND HEDGES, EXCLUDING THE IMPACT OF NEGATIVE CONVEXITY AND LEVERAGE

- **Our duration gap was positive 1.2 years as of Mar 31, 2014, compared to positive 1.5 years as of Dec 31, 2013**
- **The duration of our asset portfolio of 5.1 years as of Mar 31, 2014 was unchanged from Dec 31, 2013**
- **The duration of our liability and hedge portfolio decreased to -3.9 years as of Mar 31, 2014, compared to -3.6 years as of Dec 31, 2013**

| *($ in billions, duration in years)* | Mar 31, 2014 | | Dec 31, 2013 | |
|---|---|---|---|---|
| **Asset** | **Market Value** | **Duration** | **Market Value** | **Duration** |
| Fixed [1] | $52.1 | 4.8 | $61.5 | 5.0 |
| ARM | 1.2 | 3.0 | 1.2 | 3.2 |
| CMO [2] | 2.3 | 6.4 | 2.3 | 6.7 |
| REIT Equity Securities | 0.4 | 10.0 | 0.2 | 10.0 |
| Net TBA | 14.1 | 5.8 | 2.3 | 7.9 |
| **Total** | $70.1 | **5.1** | $67.5 | **5.1** |
| **Liabilities & Hedges** | **Market Value / Notional** | **Duration** | **Market Value / Notional** | **Duration** |
| Repo | $(49.6) | -0.4 | $(61.2) | -0.3 |
| Swaps | (46.4) | -4.1 | (43.3) | -4.1 |
| Preferred | (0.2) | -8.1 | (0.2) | -8.4 |
| Payer Swaptions | (8.0) | -1.1 | (14.3) | -3.0 |
| Receiver Swaption | 1.0 | 0.8 | -- | -- |
| Treasury Securities | (6.5) | -7.2 | 2.0 | 6.5 |
| Treasury Futures | (0.9) | -6.1 | (2.1) | -6.4 |
| **Total** | | **-3.9** | | **-3.6** |
| **Net Duration Gap** | | **1.2** | | **1.5** |

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

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1. Fixed rate securities exclude securities from consolidated structured transactions
2. CMO balance includes interest-only, inverse interest-only and principal-only securities and consolidated structured transactions, net of consolidated other debt.

# NAV Sensitivity to Rates and MBS Spreads

## Both changes in interest rates and changes to MBS spreads relative to Treasury and swap rates can impact the market value of our equity

- **Interest Rate Sensitivity**
  - ✓ Interest rate sensitivity is the sensitivity of our assets to changes in interest rates
    - The duration of a mortgage changes with interest rates and tends to increase when rates rise and decrease when rates fall
    - This "negative convexity" generally increases the interest rate exposure of a mortgage portfolio over what would be indicated by just our duration gap alone
  - ✓ The estimated change in the market value of our asset portfolio, net of hedges, in the adjacent table is based on model predictions as of Mar 31, 2014, incorporates the dual effects of both duration and convexity and assumes that no portfolio rebalancing actions are taken
- **MBS Spread Sensitivity ("Basis Risk")**
  - ✓ The MBS spread sensitivity is the sensitivity of our assets to changes in MBS spreads
  - ✓ Our estimated spread sensitivity is based on model predictions and assumes a spread duration of 5.00 years, which is based on interest rates and MBS prices as of Mar 31, 2014
  - ✓ The spread sensitivity is also sensitive to interest rates and increases as interest rates rise and prepayments slow

**Interest Rate Sensitivity [1]**
**As of Mar 31, 2014**
**(based on instantaneous parallel shift in interest rates)**

| Interest Rate Shock (bps) | Estimated Change in Portfolio Market Value [2] | Estimated Change as a % of NAV [3] |
|---|---|---|
| -100 | 0.4% | 3% |
| -50 | 0.5% | 4% |
| +50 | -0.7% | -6% |
| +100 | -1.5% | -12% |

**MBS Spread Sensitivity ("Basis Risk") [1]**
**As of Mar 31, 2014**

| MBS Spread Shock (bps) | Estimated Change in Portfolio Market Value [2] | Estimated Change as a % of NAV [3] |
|---|---|---|
| -25 | 1.3% | 10% |
| -10 | 0.5% | 4% |
| +10 | -0.5% | -4% |
| +25 | -1.3% | -10% |

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1. Interest rate and MBS spread sensitivity are derived from models that are dependent on inputs and assumptions provided by third parties as well as by our investment team and, accordingly, actual results could differ materially from these estimates. Please also refer to the supplemental slide at the end of this presentation for additional information.
2. Estimated dollar change in value expressed as a percentage of the total market value of "at risk" assets
3. Estimated change as a percentage of NAV incorporates the impact of leverage

# DURATION GAP

- **The duration of an asset or liability measures how much its price is expected to change if interest rates move in a parallel manner**
  - ✓ For example, an instrument with a 1 year duration is expected to change 1% in price for a 100 bps move in rates
- **Duration gap is a measure of the difference in the interest rate exposure, or estimated price sensitivity, of our assets and our liabilities (including hedges)**
  - ✓ It is calculated using relatively complex models and different models can produce substantially different results. Furthermore, the actual duration of both assets and liabilities (including hedges) may differ materially from the model estimates
  - ✓ Duration and convexity calculations generally assume all rates move in a parallel fashion (2 yr rates, 10 yr rates, swap rates, treasury rates etc.) and this is typically not the case. As such, these calculations do not measure the "basis risk" or yield curve exposure, embedded in these positions
  - ✓ Higher leverage increases the exposure of our book value (or equity) to a given duration gap
- **The duration of mortgage assets also changes as interest rates move. The duration generally extends when interest rates rise and contracts when interest rates fall. This is called "negative convexity" and is generally driven by changes in prepayment expectations, which have historically been correlated with interest rates. Interest rate caps embedded in ARM securities also increase negative convexity**
  - ✓ Negative convexity generally increases the interest rate exposure of a mortgage portfolio significantly over what would be indicated by the duration gap alone
- **AGNC uses a risk management system and models provided by Blackrock Solutions to generate these calculations and as a tool for helping us to measure other exposures, including exposure to larger interest rate moves and yield curve changes**
  - ✓ Base models, settings and market inputs are provided by Blackrock
  - ✓ Blackrock periodically adjusts these models as new information becomes available
  - ✓ AGNC management makes adjustments to the Blackrock model for certain securities as needed
  - ✓ Please refer to our most recent Form 10-K and 10-Q filed with the SEC for additional information on risk measures
- **The inputs and results from these models are not audited by our independent auditors**

# USE OF NON-GAAP FINANCIAL INFORMATION

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

GAAP interest expense does not include interest related to periodic settlements associated with undesignated interest rate swaps. Periodic interest settlements associated with undesignated interest rate swaps are reported in realized gain (loss) on periodic settlements of interest rate swaps on our consolidated statement of operations. As we believe that these items are beneficial to the understanding of our investment performance, we provide a non-GAAP measure called adjusted net interest income, which includes the impact of net periodic settlements of interest rates swaps. Additionally, we present net spread income as a measure of our operating performance. Net spread income is comprised of adjusted net interest income, less total operating expenses. Net spread income excludes all unrealized gains or losses due to changes in fair value, realized gains or losses on sales of securities, realized losses associated with derivative instruments and income taxes. Net spread and TBA dollar roll income includes the impact of estimated net carry income or loss (also known as “dollar roll income/loss”) associated with net sales of agency mortgage backed securities on a forward-settlement basis through the TBA market.

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

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