American Capital Agency

A Deep Dive into Financing and Dollar Rolls

October 1, 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.

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DISCUSSION OVERVIEW

- **Financing Summary: Peter Federico**
  - ✓ Repo funding highlights
  - ✓ Funding differences for on and off balance sheet assets

- **The Tradeoff Between Specified Pools and Dollar Rolls: Chris Kuehl**
  - ✓ MBS prepayment environment
  - ✓ Specified pools versus TBAs in the current environment

- **Accounting Treatment and Tax Implications of Dollar Rolls: Bernice Bell**
  - ✓ TBA considerations for REITs

Financing Summary

Peter Federico

FUNDING HIGHLIGHTS

AGNC'S LIQUIDITY POSITION IS STRONGER THAN IT HAS EVER BEEN BASED ON THE COMBINATION OF SIGNIFICANT EXCESS CAPACITY, REDUCED ROLL OVER RISK, MORE DIVERSIFIED COUNTERPARTY EXPOSURE, AND VALUE-ADDED ROLL FINANCING

- **Significantly increased our excess repo funding capacity to about double our current outstanding repo balance**
- **Reduced funding concentration by adding counterparties and reducing our exposure to the largest banks**
  - ✓ Less than 12% with top 5 counterparties as of 6/30/14, compared to 18% as 12/31/11
- **Reduced funding rollover risk by extending the average maturity of our repo funding to 6 months from 1 month in 2011**
  - ✓ A portion of our repo funding now extends out to 5 years
- **Improved all-in funding levels and reduced reliance on repo funding via the proactive use of forward purchases of TBAs and dollar rolls**
- **Our strong liquidity position gives us the capacity to increase leverage at any time as investment opportunities evolve**

AGNC Repurchase Agreements
As of June 30, 2014 - $ in millions

Months to Maturity	Percent Outstanding	Repo Outstanding	Interest Rate	Average Days to Maturity
≤ 1	23%	$11,119	0.34%	15
> 1 to ≤ 3	31%	14,511	0.36%	54
> 3 to ≤ 6	22%	10,293	0.42%	138
> 6 to ≤ 9	10%	4,735	0.48%	236
> 9 to ≤ 12	5%	2,585	0.49%	309
> 12 to ≤ 24	5%	2,273	0.59%	485
> 24 to ≤ 36	1%	600	0.59%	782
> 36 to ≤ 48	1%	502	0.63%	1,355
> 48 to ≤ 60	2%	900	0.67%	1,726
Total / Wtd Avg	**100%**	**$47,518**	**0.41%**	**170**

AGNC Repo Counterparty Distribution

Region	Number	Funding %
North America	19	62%
Asia	5	12%
Europe	12	26%
Total	**36**	**100%**

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REPO VS DOLLAR ROLL FUNDING

IN THE CURRENT ENVIRONMENT, TBA ASSETS FUNDED IN THE DOLLAR ROLL MARKET OFFER SIGNIFICANTLY BETTER CARRY THAN THE SAME ASSETS FUNDED IN THE REPO MARKET AND HELD ON-BALANCE SHEET

On Balance Sheet Funded Example		
	Dollars *	**Price in 32nds**
Interest Income	$2,708	8.7
Repo Cost	($292)	(0.9)
Swap Cost	($1,000)	(3.2)
Net Interest Income	$1,416	4.6
Net Interest Margin	1.70%	

* dollars per million per month

- **In this hypothetical example, the net interest income for one month on a 30 year Fannie Mae 4% is 4.5/32nds**
- **Repo funding assumed to be 30 days at 0.35%**
- **Swap hedge assumed to be a 5 year pay fixed swap at 1.85%**
- **The net interest margin is 170 bps after hedge costs**

TBA Dollar Roll Example		
	Dollars *	**Price in 32nds**
Drop Income	$3,031	9.7
Repo Cost	$0	0.0
Swap Cost	($1,000)	(3.2)
Net Interest Income	$2,031	6.5
Net Interest Margin	2.44%	

* dollars per million per month

- **In this hypothetical example, the net income for a one month roll for 30 year Fannie Mae 4% is 6.5/32nds**
- **TBA "specialness" results in a pick-up of about 2/32nd in price per month or 74 bps per year of additional carry relative to the same assets funded on balance sheet with repo**
- **The net interest margin is 244 bps after hedge costs**
- **The income from the dollar roll funded position is 143% of the income generated from the Repo funded MBS position.**
  - ✓ In this example, you would need $1.43 billion in repo funded positions to earn a comparable amount to a $1 billion dollar roll position

Note: The hypothetical example above assumes a 30 year 4% FNM MBS with a 3.25% yield at a lifetime constant prepayment rate ("CPR") of 8%

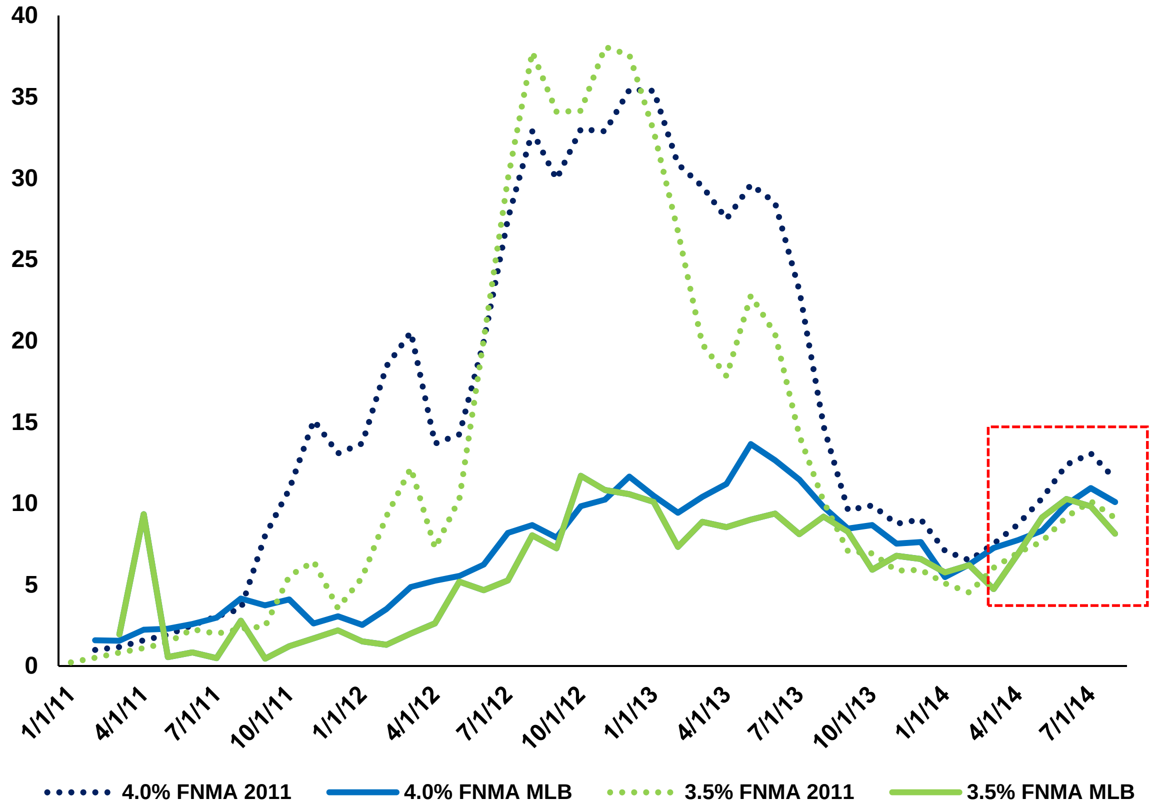
The Tradeoff Between Specified Pools and Dollar Rolls

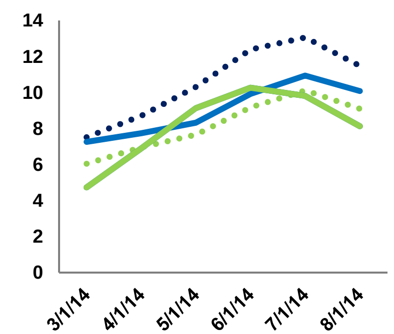
Chris Kuehl

PREPAYMENT ENVIRONMENT

REFINANCING ACTIVITY REMAINS MUTED FOR MOST OF THE MARKET

1 Month CPR [1]





Source: Morgan Stanley

1. FNMA 2011 30 year cohorts exclude specified pools, CMOs and FED holdings; FNMA MLB cohorts represent 30 year 2011 original loan balances > $85k and ≤ $110k

HYPOTHETICAL YIELD SENSITIVITY – 30 YEAR 4% MBS

TODAY'S PREPAYMENT ENVIRONMENT HAS REDUCED THE NEED TO OWN SPECIFIED POOLS

2012 – 2013					
Prepayment - CPR	**10**	**20**	**25**	**30**	**40**
Asset Yield	2.93%	2.24%	1.86%	1.45%	0.55%
Repo Cost	0.35%	0.35%	0.35%	0.35%	0.35%
Interest Rate Spread [1]	2.58%	1.89%	1.51%	1.10%	0.20%
Monthly Carry (32nds)	6.9	5.0	4.0	2.9	0.5

** Price 106-$^{14}/_{32nds}$, as of 06/30/12, 07/12/12 settle*

- **In 2012 – 2013, TBA delivery risk was high**
- **TBA delivery likely prepaying around 30% CPR, resulting in relatively unattractive returns**

2014					
Prepayment - CPR	**0**	**8**	**10**	**12**	**15**
Asset Yield	3.59%	3.25%	3.15%	3.04%	2.89%
Repo Cost	0.35%	0.35%	0.35%	0.35%	0.35%
Interest Rate Spread [1]	3.24%	2.90%	2.80%	2.69%	2.54%
Monthly Carry (32nds)	8.6	7.7	7.5	7.2	6.8
1 Month Roll Drop (32nds)			9.7		

** Price 105-$^{1}/_{32nds}$, as of 09/19/14, 10/14/12 settle*

- **Today, prepayment speed differences between generic TBA MBS and specified pools have largely converged**
- **TBA roll carry is better than specified pools paying at 0% CPR**
- **Even if roll carry worsens, it will likely still be attractive relative to repo funded specified pools**

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Hypothetical prepayment speeds, REPO, and roll drop assumptions are for illustrative purposes only to show the effect on yields and spreads. Yields calculated above are shown using TBA prices. Specified collateral such as lower loan balance trade at significant premiums to TBA prices and thus yields at the speeds listed above will be materially lower. Actual results could differ materially from those shown above.

Source: Bloomberg
1. Does not include hedge costs

Accounting Treatment and Tax Implications of Dollar Rolls

Bernice Bell

HOW TBAS FIT INTO A MORTGAGE REIT

- **TBA dollar roll transactions are accounted for as a series of derivative transactions under GAAP**
  - ✓ TBA contracts are reported at fair value, net of the forward price to be paid or received, in derivative assets/liabilities on our consolidated balance sheet
  - ✓ Dollar roll income and any gains/losses due to fluctuations in fair value are recognized in gain/loss on derivative instruments
- **We treat TBAs as qualifying income and assets for our gross income and asset tests under our REIT compliance thresholds**
  - ✓ Based on a legal opinion of Skadden, Arps, Slate, Meagher & Flom LLP [1]
- **Dollar roll income and mark-to-market gains/losses are recognized when realized for income tax purposes, which generally corresponds to the TBA settlement date (i.e. monthly)**
  - ✓ By comparison, net interest income from MBS held in pool form ("repo funded assets") is included in taxable income on an accrual basis, while mark-to-market gains/losses are not recognized for income tax purposes until sold
- **Dollar roll income/loss from TBA contracts is recognized as a short-term capital gain/loss for income tax purposes**

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1. 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, 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.

IMPLICATIONS OF DOLLAR ROLL TAX TREATMENT FOR AGNC

CAPITAL GAINS FROM DOLLAR ROLL INCOME ARE CURRENTLY EXCLUDED FROM AGNC'S TAXABLE INCOME AS THEY ARE OFFSET BY AGNC'S PRIOR YEAR CAPITAL LOSS CARRY FORWARD. HOWEVER, CAPITAL LOSS CARRY FORWARDS DO NOT REDUCE AGNC'S DISTRIBUTABLE "EARNINGS & PROFIT"

- **As of June 30, 2014, AGNC had $3.89 per common share of unutilized capital loss carry forwards**
  - ✓ Incurred as a result of repositioning the portfolio in 2013, which generated significant realized losses for tax purposes
- **Since dollar roll income is treated as capital gains for tax purposes, it currently serves as an offset against AGNC's prior year capital loss carry forward and, compared to repo funded assets, results in lower taxable income**
- **Taxable income determines AGNC's minimum REIT distribution requirements, however, the nature of AGNC's dividend to shareholders is determined by AGNC's "Earnings and Profit"**
- **"Earnings and Profit" is a tax measure that generally conforms to taxable income**
  - ✓ However, for REITs, neither non-deductible capital losses nor the subsequent utilization of capital loss carry forwards reduces current year "Earnings and Profit," even though the such utilization reduces a REIT's current taxable income [1]
- **Dividend distributions are deemed to first come from a REIT's current year "Earnings and Profit," and then its accumulated (beginning of year) "Earnings and Profit," and excess distributions thereafter are considered to be a "Return of Capital"**
  - ✓ AGNC's 2014 dividends are anticipated to exceed its current year taxable income, but are not anticipated to exceed its current year "Earnings and Profit" and, therefore, are unlikely to be treated as a "Return of Capital" to shareholders when the final tax characterization of AGNC's dividends is determined and reported to shareholders on Form 1099-DIV after the calendar year end
  - ✓ Additionally, AGNC anticipates that its current year dividends will be characterized as ordinary dividend income to shareholders when the final tax characterization is determined

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1. Pursuant to Section 857(d)(1) of the Internal Revenue Code of 1986, as amended